advanced woundcare

wound closure and sealants

Advanced Medical Solutions Group plc

Technology Platforms for Growth

annual report and accounts 2007

Welcome to

Advanced Medical Solutions Group plc

Our Strategy

- Develop and provide leading edge technology to the global woundcare market
- Work with strategic partners and major brands to commercialise our products worldwide
- Supply and develop our own branded solutions to the NHS in our UK home market
- Create shareholder value by expanding the business organically and through acquisition

advanced woundcare

woundclosure and sealants

www.admedsol.com

Contents

highlights

211%	**Profit before taxation £1.9m** (2006: £0.6m)
202%	**Earnings per share 1.57p** (2006: 0.52p)
158%	**Net cash flow from operating activities £3.7m** (2006: £1.4m)
18%	**Revenue £16.9m** (2006: £14.3m)

Financial Highlights

Step change in financial performance:

- Pre-tax profit increased threefold to £1.9 million (2006: £0.6 million).
- EPS trebled to 1.57p (2006: 0.52p).
- Net cash inflow from operating activities of £3.7 million (2006: £1.4 million) resulting in net funds of £7.2 million at year end (2006: £4.3 million).
- Group revenues up 18% to £16.9 million (2006: £14.3 million).
- Gross margin further improved to 44% from 42%.

Business Highlights

Continued progress with key growth drivers:

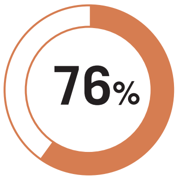
- Continued growth of silver alginate business with further launches by strategic partners in US and Europe.
- NHS direct woundcare business building steadily with the number of NHS Trusts using ActivHeal® range more than doubling during the year to in excess of 100.
- Surgical skin sealant launched in US by Kimberly-Clark Health Care.
- LiquiBand® progressing on track for US regulatory approval in 2008.

at a glance

advanced woundcare

percentage of total group revenue

revenue £12.8m



AMS provides a full range of advanced woundcare products for sale in hospital, nursing home and community care markets. The main indications are for chronic wounds such as ulcers and pressure sores.

These products pioneer the concept of moist wound healing to allow wounds to heal faster and with less pain and scarring if they remain moist. They protect the wound, deal with tissue fluids and provide an optimal environment for healing to occur.

advanced woundcare routes to market

AMS has successfully adopted a three tier route to market strategy:

Branded Partners — The Group believes that the most effective way of rapidly commercialising new technologies/concepts on a global basis is through strategic partnerships with major branded companies.

Private Label — AMS also addresses the increasing trend towards private label in advanced woundcare, driven by cost constraints by health care providers, by provision of own label products to distributors. These products allow savings to be made on treatment of routine wounds alongside the use of the new innovative products for more difficult wounds.

Direct — AMS sells direct to the NHS in its own home market.

Advanced Medical Solutions
Developer and Manufacturer

New Concepts

Cost Management

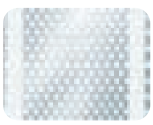
Branded Partners

Private Label Partners

UK Direct (NHS)

Technology Platforms:

advanced woundcare


Film

Foam


Hydrocolloid


Hydrogel


Alginate


Silver alginate

wound closure and sealants

Our wound closure and sealants products are based on cyanoacrylate adhesive technology developed for medical applications.

Tissue adhesives offer significant benefits over convential ways of closing wounds following trauma or surgical incision.

They are simple to use, non-invasive, help to reduce the risk of infection, minmise trauma to the patient and provide good clinical and cosmetic outcomes.

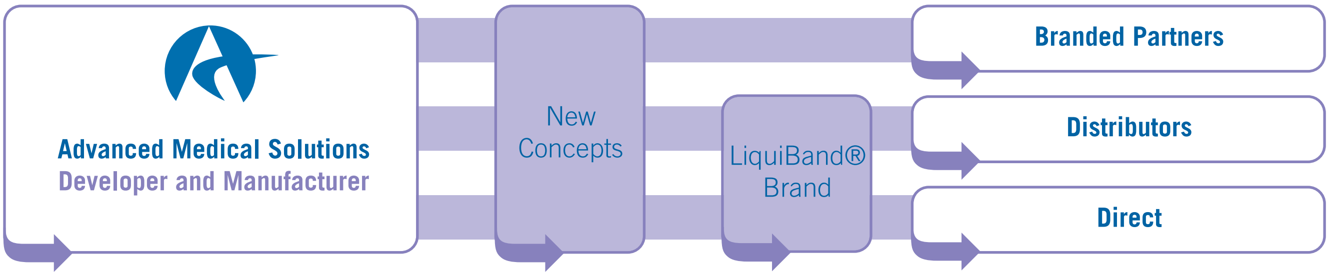
The technology is also ideally suited to protecting skin from breakdown or for use as a skin sealant to help prevent infection of surgical sites.

percentage of total group revenue

revenue £4.1m

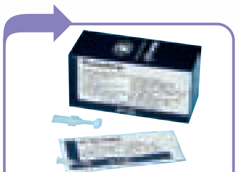
wound closure and sealants routes to market

The use of tissue adhesives and sealants is still a relatively new concept and requires market creation, education and development. Products are taken to market either through a major branded partner or under our own LiquiBand® brand, direct in the UK and via distributors in Europe.



Technology Platforms:

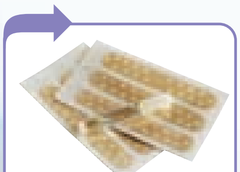
wound closure and sealants


LiquiBand®


LiquiBand Flow Control™


LiquiBand Surgical™


LiquiBand Laparoscopic™


SkinLink™

our strategy

Strategic goal

To achieve sustained profitability and cash generation in order to grow a substantial global medical technology business.

Strategy

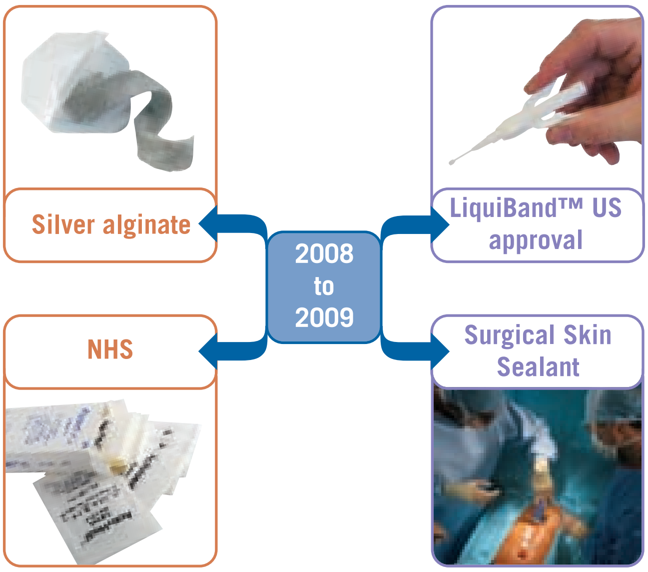
- Develop and provide leading edge technology to the global woundcare market
- Work with strategic partners and major brands to commercialise our products worldwide
- Supply and develop our own branded solutions to the NHS in our UK home market
- Create shareholder value by expanding the business organically and through acquisition

Key strengths

Four key strengths underpin our strategy:

- Broad portfolio of materials technology, supported by strong intellectual property and patents
- Track record of commercialising research and development and forming strategic relationships with blue-chip partners
- Multiple routes to market
- Experienced management team

Organic growth strategy:



Organic Growth Drivers: Silver alginate

2007 market size: $125 million *($250 million Silver Products)*

Growth rate: 25% **AMS available market:** $50 million

Product status: Silver fibre technology — Global exclusive with leading brand
Ionic silver technology — multi-partner US/EU

What's new:
- Further launches of silver products by partners in US hospital, nursing homes and home care markets, and in EU countries
- FDA 510(k) clearance for extended claims for 21 day duration burn dressing

Organic Growth Drivers: NHS Advanced woundcare

2007 market size: £110 million

Growth rate: 10% **AMS available market:** £55 million

Product status: Routine wounds — ActivHeal® sold direct by AMS as a value range for first line therapy
Difficult wounds — higher performance products/new technologies sold via partners

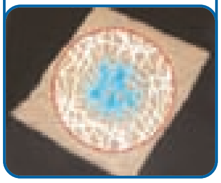
What's new:
- NHS Trusts using ActivHeal® doubled to over 100
- UCLH adopted products for routine wounds
- 4 new products launched
- Strong educational and training support provided by AMS Clinical Nurse Team

Investment opportunities for growth

Organic R&D

Advanced woundcare

- Higher performance dressing
- Actives/anti-microbials
- Fast wound healing — MMP modulation



Wound closure and sealants

- Indication specific devices
- Internal adhesives
- Surgical/OR appplications

Acquisitions

Technology

Strategy:
To acquire complementary new products/technologies to leverage existing distribution outlets — direct, strategic partners and distributors.

Target areas:

New material technologies

Actives

Internal adhesives

Distribution

Strategy:
To broaden direct sales presence in order to accelerate penetration of key markets and maximise value of AMS technology.

Target areas:

Major European markets

Wound closure

Surgical/Operating Room arena

Organic Growth Drivers: Surgical Skin Sealant

Product status

Innovative product to help prevent surgical site infection due to patient's skin flora

Licensed to Kimberly-Clark Health Care in 2006 as global exclusive (InteguSeal*)

What's new

- US launch in Feb 2007 — roll-out under way
- Now available in US, Europe and other international markets
- Product is being evaluated in a wide range of surgical procedures
- Initial reaction positive by surgeons and institutions

Organic Growth Drivers: LiquiBand® US approval

2007 market size: $150 million *(US market $110 million)*

Growth rate: 15% **AMS available market:** $25 million

US regulatory approval status

- Currently approval of topical adhesives is via PMA
- In August 2006 FDA panel recommended reclassification to less onerous 510(k) route
- FDA has now accepted and is promoting 510(k)
- Federal Register Notice containing proposed 510(k) controls posted in July requesting public comment
- Formal reclassification to 510(k) expected in 2008

chairman's statement

Overview

I am pleased to inform investors that AMS continued to make excellent progress during 2007, further strengthening its financial position and progressing key strategic growth opportunities.

Group revenues increased 18% to £16.9 million with good growth achieved in our two business segments, advanced woundcare (up 12%) and wound closure and sealants (up 41%). The growth was also well spread across our key global markets: UK up 27%, rest of Europe up 19% and US up 21%.

Gross margins continued to improve from 42% to 44% due to a move towards higher value products and improved manufacturing efficiencies.

Pre-tax profits increased 211% to £1.9 million with maiden first half pre-tax profits being achieved. Post-tax profits of £2.2 million resulted in earnings per share (EPS) trebling to 1.57p.

The Group generated a net cash inflow from operating activities of £3.7 million contributing to a robust balance sheet with cash and cash investments of £7.5 million at the year-end. The balance sheet was reconstructed during 2007, to create a distributable reserve to allow the Group to pay dividends in the future. The Board currently believes that it is best able to deliver shareholder returns by growing the business and delivering capital growth.

Good progress was made during 2007 with the key identified organic growth drivers:

- Silver alginate — Further product launches were made in the first half of 2007 strengthening the Group's position in the dynamic silver alginate market. AMS has two silver technologies and a broad range of marketing and distribution partners selling into the major global markets.
- NHS woundcare — The ActivHeal® advanced woundcare range was expanded by the introduction of four new products during the year. Sold direct to the NHS, ActivHeal® products are now used in more than 100 Hospital and Primary Care Trusts, offering substantial savings in woundcare budgets.
- Surgical skin sealant — This novel product for helping to prevent infection of surgical sites is now available in most of the major international markets following its US launch in February 2007 by Kimberly-Clark Health Care, AMS' exclusive global marketing partner for this technology.

"The Group has delivered against all of its major objectives for 2007"

- US approval of LiquiBand® — The LiquiBand® tissue adhesive range continues to progress through the FDA approval process with clearance expected to be obtained during 2008 allowing sale of the product into the US market.

The Group's strong balance sheet provides the opportunity to fund future growth both organically and through acquisition and a number of strategic investment opportunities have been identified that are currently under discussion.

Operating Review

Advanced Woundcare

Advanced woundcare sales of £12.8 million were up 12% on the prior year, well ahead of market growth rates. The global advanced woundcare business is estimated at $3.2 billion and growing at around 9%.

AMS has a particularly strong proprietary position with its alginate and silver technologies and has used this to continue to develop its silver alginate business. Driven by concerns over wound infection, silver has become the predominant anti-microbial technology, and alginate the major wound dressing, for this indication. New partner launches took place during the first half-year into the US hospital market, the US home care market and in a number of European countries strengthening the Group's global presence in this dynamic market currently estimated at $125 million and growing at 25%. Due to widespread use of silver alginate dressings for treatment of infected wounds, AMS has also experienced continued growth of its base alginate product range. With its broad partner base and global presence, this is a core part of the AMS business.

Good progress continues to be made in penetrating the UK NHS advanced woundcare market with AMS's direct ActivHeal® offering. More than 100 NHS Trusts are now using these products as a first line therapy for treating routine wounds, complementing the use of the Group's new technologies such as silver alginate, for treating infected or more difficult to heal wounds sold through strategic partners.

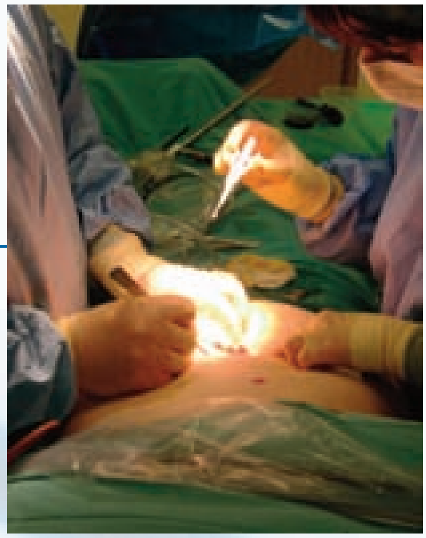
The addition of University College London Hospital (UCLH) NHS Foundation Trust in August 2007 as a customer is a strong endorsement of the ActivHeal® product range and the success AMS is now achieving with this business model. Following a review of its woundcare product formulary, this major London teaching centre adopted ActivHeal® as a way to manage costs without compromising patient care for routine wounds.

The ActivHeal® product range has been strengthened during the year with the launch of new foam and hydrocolloid products in June and ActivHeal Aquafiber® in November. The Group remains confident that it will continue to penetrate the NHS advanced woundcare market currently estimated at £110 million. Increased central decision making and further integration of product usage between hospitals and their associated Primary Care Trusts are positive trends that support timely selection and adoption of the ActivHeal® range.

Wound Closure and Sealants

The wound closure and sealants business grew 41% to £4.1 million as the Group continued to develop its LiquiBand® business within Europe and Kimberly-Clark Health Care launched surgical skin sealant into the US market in February.

The Group maintained its strong leadership position in the UK Accident & Emergency (A&E) arena in the period and has also focused the efforts of its European distributors on the A&E market where the adhesive technology has real clinical and cosmetic benefits over alternative wound closure methodologies such as sutures, staples and adhesive strips. The Group is developing its strategy for penetration of the European Operating Room (OR) market either through recruitment of specialist OR distributors or by expanding its direct sales presence in this area, together with the development of a range of products aimed specifically at the OR with strong clinical support.



The dominant segment of the $150 million topical tissue adhesive market is the US and regulatory approval for entering this market is progressing. The FDA has now accepted, and is promoting, the panel recommendation of August 2006 for these products to be reclassified from a Premarket Approval (PMA) to the less onerous 510(k) approval route.

A Federal Notice was posted on 3 July 2007 containing draft Special Controls to be used for 510(k) clearance, and written comments from the public were requested. Subject to the outcome of the public comments, formal reclassification allowing 510(k) regulatory approval is anticipated during 2008. In the meantime, the Group continues to build clinical data to support a PMA route in parallel.

Kimberly-Clark Health Care is continuing its US roll-out of the new surgical skin sealant following its initial introduction in February 2007. The product is now available in the US, Europe and other international markets. Initial reaction from the surgical community to this innovative product to help prevent infection of surgical sites is very positive, both at the institutional and at the individual surgeon level. The product is being evaluated in a wide range of surgical procedures as a means to help reduce skin flora contamination of the wound.

R&D

The Group has continued to build on its current technology platforms by investing in a strategically aligned and focused R&D programme during 2007. Total R&D spend increased from £1.0 million in 2006 to £1.1 million in 2007 representing 7% of sales. As well as adding line extensions to the current advanced woundcare range, new dressings with improved fluid handling and wound healing characteristics are under development. Of particular interest are materials that inhibit or negate the effect of enzymes produced by the body that prevent healing of chronic wounds. A number of technologies are under evaluation, both through internal development and as licensing and acquisition candidates, that could lead to products with superior performance by modulating enzymic activity and hence may help to accelerate wound healing.

In wound closure and sealants, as well as broadening the existing product portfolio for topical skin closure and protection, the Group has started to evaluate technologies that will allow it to enter the internal adhesives and sealants market currently estimated at around $600 million. Whilst this is likely to be a medium to long-term development and regulatory approval programme, it will allow the Group to leverage its current cyanoacrylate adhesives platform and its expertise in applicator design to enter the surgical arena as part of continuing to move to higher value products.

"With a strong start to 2008 and a number of step change opportunities on the horizon the outlook is very positive"

Board

Steve Bellamy was appointed as non-executive director in February 2007 and now chairs the Audit Committee. Steve's previous experience and strong City background is of great value as the Group continues to evaluate strategic corporate opportunities to enhance growth.

Chris Meredith's role has been broadened to become Managing Director of the Advanced Woundcare business segment in addition to his responsibility as Group Commercial Director, as part of a programme to ensure we have the right management team to enable the Group to meet its longer term growth targets.

International Accounting Standards

The Group has adopted International Financial Reporting Standards (IFRS) for the first time in 2007. The overall effect of this has been to improve profit before tax by £0.3 million (equivalent to EPS of 0.2p) with the main changes arising from the capitalisation of qualifying R&D activities.

Outlook

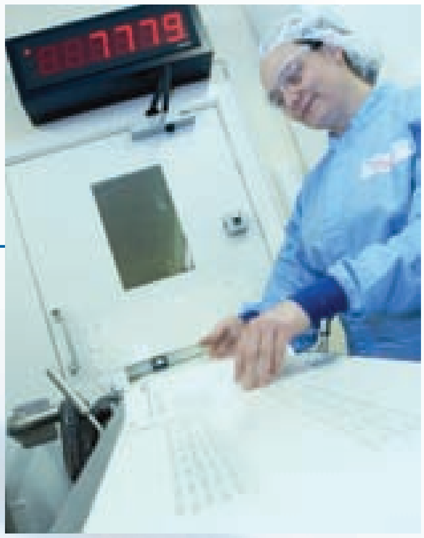
Woundcare is an attractive market with favourable demographics and an increasing need for products for the treatment of both chronic and acute wounds.

Organic growth is set to continue due to the dynamic silver market, increasing penetration into the NHS, the launch of surgical skin sealant and the ongoing R&D programme. Additionally, the Group has exciting step change opportunities on the horizon such as entry into the US market with LiquiBand® and through acquisitions that leverage AMS' technology and distribution base.

The outlook is very positive. Trading continues to be strong at the start of 2008 and the Group continues its move into sustainable profitability.

I would like to thank all AMS employees for their continued efforts in 2007 in building a successful medical technology business and look forward to continuing working with the team in meeting the challenges and opportunities ahead.

Dr Geoffrey N Vernon
Chairman
18 April 2008



chief executive’s review

2007 has seen AMS continue to make excellent progress in building a leading, global woundcare technology company. The financial position has continued to strengthen, new products have been launched and partners have been added in key markets. Both segments of the business — advanced woundcare and wound closure and sealants — have performed well in 2007 giving the Group a broad base of products and routes to market to deliver future growth.

Advanced Woundcare

AMS provides a comprehensive range of advanced woundcare products that pioneer the concept of moist wound healing. This allows wounds to heal faster and with less pain and scarring compared with traditional wound dressings. The products protect the wound, deal with tissue fluids and provide an optimal healing environment.

In the case of routine wounds or where cost management is key, AMS provides wound dressings direct to the NHS in the UK under its own ActivHeal® brand or through private label distribution partners in other markets.

The Company made good progress in 2007 with its direct ActivHeal® offering by broadening its product range and gaining new Hospital and Primary Care Trusts. A key addition was University College London Hospital (UCLH) NHS Foundation Trust which adopted products from the ActivHeal® range in August 2007 as a first line therapy for routine wounds. Granted Foundation Trust status in 2004 and comprising seven separate hospital sites, UCLH NHS Trust is a major London teaching centre and contracts with 300 Primary Care Trusts. The training and educational assistance provided by the AMS clinical nurse team to support successful conversion was well received. This is particularly encouraging as over the past year the Group has focused on providing strong clinical support to back up the value proposition of its product offering.

As well as cost management, and training and educational support, the users of advanced woundcare products seek technological innovation and AMS has also delivered a number of new products during the period. New improved foam and hydrocolloid dressings were launched in June and ActivHeal Aquafiber® was launched at the Wounds UK 2007 Conference in Harrogate, North Yorkshire in November.

ActivHeal Aquafiber® is a soft, conformable and highly absorbent dressing. In contact with wound exudate, the product forms a soft, clear gel providing an ideal moist wound environment that supports the wound healing process. Indicated for moderate to heavily exuding chronic and acute wounds, ActivHeal Aquafiber® also controls minor bleeding in superficial wounds. ActivHeal Aquafiber® competes in a segment of the advanced woundcare market on which it is estimated that the NHS currently spends £15 million each year. In a scientific poster presented at the Harrogate conference, ActivHeal Aquafiber® was shown to be equivalent to or better than a significantly more expensive leading brand on all five performance characteristics tested including absorbency, speed of absorbency, dry strength, wet strength and lateral wicking — all key attributes of a moist wound healing dressing.

Aquafiber®

Aquafiber® is a soft, conformable, highly absorbent dressing. In contact with wound exudate Aquafiber® converts to a soft, clear gel providing an ideal moist wound environment that supports the wound healing process.

Aquafiber® is indicated for moderately to heavily exuding wounds and to control minor bleeding in superficial wounds.

Aquafiber® is designed to remain intact when wet or dry making it easy and atraumatic when removing from the wound.

Aquafiber® contains calcium ions that exchange with sodium ions found in wound fluid. Calcium is known to be beneficial in several stages of the wound healing process.

Web Link

For more on Aquafiber® visit the website and follow the menu route below:

www.admedsol.com

AMS Products and Services
Home >> Our Products
>> ActivHeal® >> Product Range
>> ActivHeal Aquafiber® New

Aquafiber® is available for prescribing by NHS Trusts in the UK

The ActivHeal Aquafiber® dressing has been listed in the Drug Tariff and is available for prescribing by NHS Trusts at an average price 30% lower than the equivalent branded dressing, thus offering a significant immediate saving on NHS woundcare budgets.

In the case of infected or problematic wounds, AMS provides its new technologies such as silver dressings through strategic partnerships with major players who have the marketing presence and global reach to rapidly commercialise new concepts. The Group continued to make good progress with its silver alginate business and is looking to broaden its offering to include new anti-microbial technologies and delivery systems. The opportunity to access the US burns market was strengthened with 510(k) clearance being granted by the FDA, allowing AMS to extend its claims for a silver alginate dressing that is effective for up to 21 days. This allows the frequency of dressing changes to be reduced, thus providing a significant reduction in the time and overall cost of treatment, a better opportunity for healing to progress undisturbed and less pain and discomfort to the patient. The extended claims strengthen the commercial offering to marketing partners looking to access the burns market.

Wound closure and sealants

The wound closure and sealants product portfolio has been strengthened by the introduction of new products in key markets.

LiquiBand™ EZ Squeeze is an addition to the LiquiBand® wound closure range sold throughout Europe. This development is part of a continual process to make tissue adhesives easier to use. Simple, safe and precise application is equally important to the adhesive properties in gaining user acceptance of cyanoacrylate tissue adhesives for closure of small cuts and trauma wounds through to large surgical incisions. Accreditation of the Company's Educational Programme for minor wound closure by the Royal College of Nursing Accreditation Unit is also helping to gain user acceptance in the UK.

Simple innovations such as the EZ Squeeze product and strong educational support to clinical users have helped AMS maintain its leadership position in the UK A & E market and continue to penetrate other EU markets through its distributor base.

Obtaining approval of the LiquiBand™ wound closure range for the US market by the FDA remains a major focus for the business. It is currently anticipated that topical tissue adhesives will be reclassified to a 510(k) approval route during 2008 allowing subsequent entry into this major market. A marketing and distribution partner has been identified for the US and market entry plans are being drawn up subject to regulatory approval. In parallel with the 510(k) reclassification route, multi-centre clinical studies are being conducted to support the existing PMA route if necessary.

As well as being an ideal wound closure material, the AMS cyanoacrylate technology offers exciting applications for sealing and protecting skin. LiquiShield® S (Superskin®) is a barrier film that is indicated for helping to prevent skin breakdown which can lead to bed sores particularly in patients in long term care facilities. This product is available in Europe and US markets, sold through distributors who are focused on the nursing home sector.

Surgical skin sealant is an innovative product designed to help prevent infection of surgical sites due to the patients' skin flora. This product was licensed to Kimberly-Clark Health Care in 2006 as a global exclusive and was launched under their InteguSeal® brand into the US in February 2007. The product, which is now available in the US, Europe and other international markets, is being evaluated in a wide range of surgical procedures with positive initial reactions by surgeons and institutions. It is estimated that the cost of hospital acquired infection was $3 billion in the US in 2007, with surgical site infections (SSI) a major component. This is resulting in considerable interest being taken in products that can reduce the incidence of SSI, particularly when reimbursement of the cost of these is under question.

Surgical Skin Sealant

Skin sealant designed to reduce the risk of skin flora contamination of a surgical wound.

Contamination by the patient's own skin flora is recognized as a major factor in the development of surgical site infection during surgical procedures. Compared with uninfected patients, those with surgical site infections have been shown to remain in hospital seven days longer, are 60% more likely to be re-admitted to intensive care units, are five times more likely to return for treatment within 30 days of discharge and have double the mortality rate.[1]

Working with Kimberly-Clark Health Care, a global leader in infection control, AMS has developed InteguSeal* Microbial Sealant, an innovative product designed to protect

Skin Sealants

LiquiShield® S (SuperSkin®)

— a tissue barrier film for wound management

Wound management products range from traditional gauzes and adhesive plasters to the advanced moist woundcare dressings as currently sold by AMS. The use of medical adhesives as a barrier for the protection of skin is a relatively new concept. LiquiShield® S is a topical, liquid barrier film that is painted onto the skin in a very thin layer in order to provide protection against skin damage caused by friction, shear and/or the presence of moisture.

LiquiShield® S (Formerly SuperSkin®) received FDA clearance for sale in the USA in December 1997 and a CE mark for sales into Europe in April 1998. While it was renamed LiquiShield® S for the USA market, it continues to be sold under the name of SuperSkin® in the UK.

LiquiShield® S is sold through distributors into both markets, targeted mainly at the nursing home sector. There are few competitors within the liquid barrier market and the formulation of the LiquiShield® S product provides some significant competitive advantages.

Friction, shear or the presence of moisture can lead to skin breakdown, particularly in radiation patients, amputees utilising prosthetic limbs, stoma patients, bedridden patients, paraplegics, quadriplegics and individuals with generally compromised skin integrity. LiquiShield® S has applications in each of these areas.

Web Link

For more on LiquiShield® visit the website and follow the menu route below:

www.admedsol.com

AMS Products and Services
Home >> Our Products
>> LiquiShield® S Skin Protection

[1] Barnard, B (2003) *Prevention of Surgical Site Infections.* Infection Control Today.

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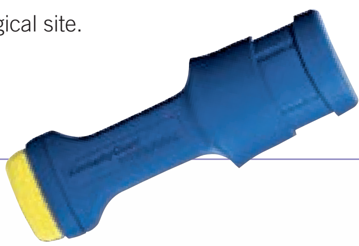
against skin flora migration into surgical incisions.

InteguSeal* Microbial Sealant consists of a liquid adhesive film applied to the skin surface using a novel applicator prior to surgery. Skin flora are immobilised during the time of the surgery thus reducing the potential for contamination of the surgical site.



Investment opportunities
The Group's strengthening financial position is allowing it to actively review investment opportunities to deliver future growth:

- **Research and Development**
  AMS built on its development activities during 2007 and continues to provide a strong new product pipeline for its organic business based on a broad patent portfolio. In addition, a number of new technology platforms are being researched.

  In advanced woundcare, the focus remains on the incorporation of ingredients into the base material technologies, that actively help accelerate the wound healing process. The initial approach is to deal with infection, which delays wound healing, hence AMS' active programme in the inclusion of anti-microbials such as silver, into its dressings. Whilst the current activity is centred on silver alginate, opportunities exist to broaden this into other products, and appropriate developments and regulatory approvals are under way.

  An area that is attracting considerable interest in the research community is the role of metallo-matrix proteases (MMPs), enzymes produced by the body in response to a wound, that subsequently inhibit or delay healing. A number of technologies that modulate MMPs are being reviewed as candidates for inclusion in AMS products as part of the next generation wound dressings.

  A number of avenues continue to be progressed to enter the internal adhesives and sealant market. This involves leveraging the Group's current cyanoacrylate technology platform or licensing or acquiring new materials and exploiting existing expertise in adhesive development, applicator design and regulatory approval.

- **Manufacturing operations**
  2007 saw a strong performance from the company's manufacturing operations delivering significant volume growth whilst ramping up production to support major product launches in silver alginate and surgical skin sealants. This was achieved within tight management of working capital whilst maintaining quality and service levels. The Group is planning to rationalise its two manufacturing operations in Winsford, Cheshire into a new single site in the local area supported by selective strategic outsourcing. This will create substantial additional capacity for future growth of the business and deliver operational efficiencies over the current set-up. A capital investment of £4 million has been identified during 2009 for setting up the new facility which is expected to come on stream in early 2010. An experienced project manager has been recruited who is dedicated to overseeing this major project, reporting to the Executive Board.

Summary
The Group continued to make excellent progress during 2007 in strengthening its financial position and advancing the key drivers of its multi-faceted growth strategy.

As a technology rich, profitable, cash generative business in the medical device sector, with a dedicated and focused workforce, AMS is well placed to continue to create value for shareholders.

Dr Don W Evans
Chief Executive Officer
18 April 2008

The Group's strengthening financial position is allowing it to actively review investment opportunities to deliver future growth.

research and development

Organic Research and Development

The Group continued to build on its current technology platforms by investing in a strategically aligned and focused R&D programme during 2007. In addition, a number of new technology platforms are being researched.

Advanced Woundcare

- Higher performance dressing
- Actives/anti-microbials
- Faster wound healing — MMP modulation

Wound closure and sealants

- Indication specific devices
- Internal adhesives
- Surgical/OR applications

Web Link

For more on Research and Development visit the website and follow the menu route below:

www.admedsol.com
AMS Products and Services
Home >> Our Products >> Key Technologies

financial review

The Group has adopted International Financial Reporting Standard (IFRS) for the first time in 2007 and the consolidated financial statements for the Group have been prepared on this basis. Overall, the profit before taxation has been improved by less than £0.3 million under IFRS with the main change arising from the capitalisation of development costs of £0.3 million.

Revenue
Revenue for the Group increased by 18% to £16.9 million (2006: £14.3 million), with advanced woundcare sales increasing 12% to £12.8 million (2006: £11.4 million) and wound closure and sealants sales growing by 41% to £4.1 million (2006: £2.9 million). The advanced woundcare business showed good growth with silver alginate and the NHS performing particularly well. The main reason for the strong performance in the wound closure and sealants business resulted from the successful launch of InteguSeal® by Kimberly-Clark.

Growth was strong across all of the Group's major geographic regions. In the UK, sales increased by 27%, reflecting increased business to both the NHS and UK partners. Sales in Europe grew 19% as a result of the growth in partner generated business particularly in advanced woundcare. Sales in the US also performed well, increasing 21%. With a significant proportion of US sales transacted in dollars the Group was, however, affected by the weak US dollar. On a comparable dollar basis to last year, sales growth in the US would have been 27% and overall underlying sales growth for the whole Group would have been 19%. Rest of world sales did, however, reduce by 70% to £0.2 million (2006: £0.7 million). This was an indirect result of the success of the Company's silver alginate business with AMS's partners in the UK and Europe gaining market share at the expense of some alginate business in the rest of the world market.

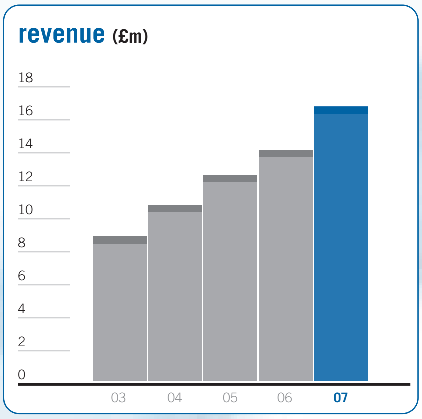
Gross margin
The gross margin for the Group was 44% (2006: 42%). The Group's strategy of selling higher value products, especially silver alginate, and increased sales to the NHS contributed to improved margins. Additionally, the benefits of increased production improved operational gearing.

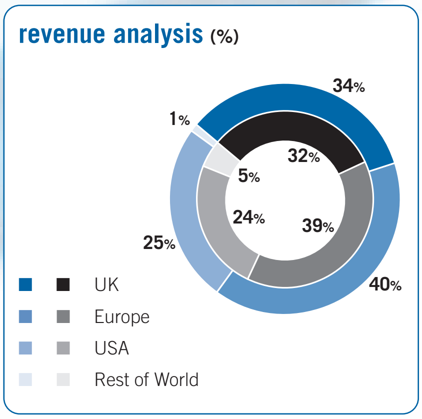
Operating profit
Administration costs increased by 3.5% to £6.1 million (2006: £5.9 million), with the main increase being in sales and marketing costs, which increased by £0.2 million to £1.6 million reflecting the full year effect of building the integrated Group commercial team which started in 2006.

Under IFRS, within research and development, some development costs must now be capitalised when a project has met certain criteria regarding viability. This resulted in a reduced research and development cost being expensed through the income statement. Compared with 2006, there was an additional £0.2 million of these development costs capitalised.

Overall, the total spend on research and development was £1.1 million in 2007 (2006: £1.0 million) representing 7% of Group revenue (2006: 7%) which is broadly in line with the Group's internal targets. £784k (2006: £909k) was expensed to the income statement and £294k (2006: £69k) was capitalised. The main areas of research and development spend in the year were in further developments in silver-based advanced woundcare products, foam dressings and the development of the cyanoacrylate technology. A number of new products were launched in the year including a foam-backed hydrocolloid and ActivHeal Aquafiber® for the NHS.

The Group has established a strong financial platform for future growth.





Other income was at a similar level to 2006 at £0.5 million and resulted from fees paid by partners towards the development of new products.

Finance income
Finance income doubled to £0.3 million as a result of the interest earned on increased level of cash and investment balances maintained throughout the year.

Profit before taxation
The Group achieved a profit before taxation of £1.9 million, over three times the profit in the previous year (2006: 0.6 million).

Taxation
The Group recognised a tax income of £0.3 million resulting from deferred tax (2006: £0.1 million), reflecting the extent that recoverability of tax as a result of past losses can be foreseen with reasonable probability. As a result, the Group holds a deferred tax asset on the balance sheet of £1.4 million (2006: £0.8 million). There is, however, approximately, a further £9.1 million (2006: £9.4 million) of tax losses at future rates of tax which have not been recognised.

Earnings per share
The profit after tax for the period was £2.2 million (2006: £0.7 million) resulting in fully diluted earnings per share of 1.48p, over three times EPS in 2006 (0.50p).

Balance sheet and cash flow
Cash generation in 2007 was very strong and optimising working capital continues to be a key focus for management. The Group generated £3.7 million of cash from operating activities (2006: £1.4 million). Whilst sales increased by 18%, inventory was at a similar level to last year and trade and other receivables reduced by £0.4 million, mainly as a result of early payment by two customers at the end of the financial year. Adjusting for this, trade and other receivables would have been at a similar level to 2006. Trade and other payables increased by £0.5 million.

The Group invested £0.5 million (2006: £0.3 million) on property, plant and equipment which are expected to improve efficiencies in 2008. The Group has identified the need to rationalise its sites and is expecting that around £4 million of capital expenditure will be associated with this in 2009. The benefits of the rationalisation will be to provide extra capacity for the future and to improve process flows and efficiencies.

At the end of the year the Group had £7.5 million in cash and cash investments (2006: £4.6 million) and net funds stood at £7.2 million (2006: £4.3 million).

Capital reorganisation
On 6 July 2007 the Company completed its capital reorganisation. The share capital was reduced by the cancellation of the Deferred Shares together with the cancellation of the share premium account. Although the total equity of the Group remained unchanged the Company was able to create a profit reserve of £5.9 million following the reconstruction. This capital reorganisation enables the Group to pay dividends, should the Board make a recommendation to do so. No dividend is being proposed for 2007.

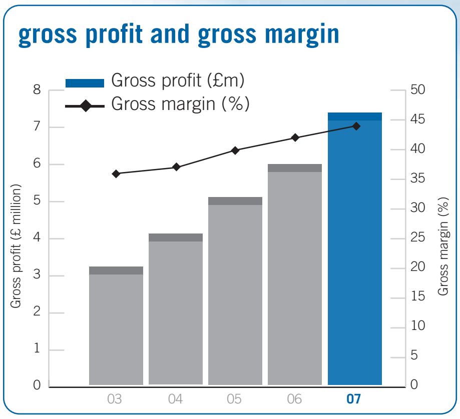
KPIs
The Group currently operates key performance indicators (KPIs) to monitor business progress. The Group regularly reviews its KPIs and going forward will use the following as the main measurements of the Group's performance:

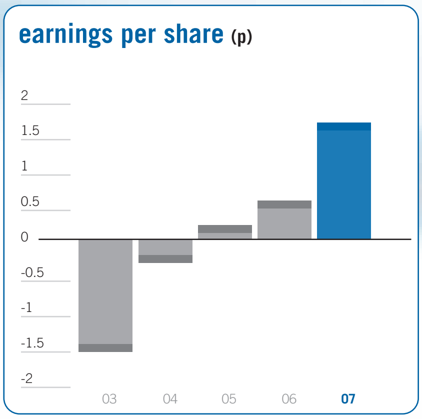
- Revenue growth
- Gross margin
- Profit from operations
- Earnings per share
- Percentage of revenue from products launched in the last 5 years
- Working capital ratio
- Customer satisfaction
- Employee satisfaction
- Quality compliance

Financial risk
The Group is subject to various financial risks including the following:

- **Market**. The Group's main currency exposure is to the US dollar with around 14% of the Group's sales denominated in US dollars. The Group's policy is to hedge significant transaction exposure to the dollar by using forward contracts and options and has both contracts and options in place to the end of 2008. In 2007, if the dollar had depreciated by 10% more than it did this would have had a £0.2 million impact on revenue and the gross margin would have been reduced by 1%.
- **Liquidity and Cash Flow**. The Group invests funds which are surplus to short-term requirements in fixed rate deposits operating within parameters for credit ratings and credit limits for individual institutions that are approved and monitored by the Board.
- **Credit**. The Company assesses the risk of contracting with each customer and sets credit limits which are carefully monitored. If a significant risk is identified credit facilities are withdrawn and transactions are carried out on a cash basis.
- **Price**. Supplier costs, discounts and rebates are monitored and checked in line with budgets and documentary evidence. Wherever possible, contracts are in place with key suppliers which define prices and terms. The Group estimates that if material prices had increased by a further 5% in 2007 and the Group was unable to pass the increases on there would have been a negative impact of £0.2 million to cost and the gross margin would have been reduced by 1%.

Mary G Tavener
Finance Director
18 April 2008





board of directors

Dr Geoffrey N Vernon BPharm, PhD, MBA, Ch.Dir.
Non-Executive Chairman

Dr Vernon is a former executive director of Rothschild Asset Management and partner of the venture capital group Advent Limited. He joined AMS as a non-executive director in July 1998 and became Chairman in January 2001. He has over 20 years' experience in healthcare and life sciences. He is a non-executive chairman and director of a number of quoted and privately owned companies. He is a Chartered Director of the Institute of Directors.

Dr Don W Evans BChemEng, MASc, PhD
Chief Executive Officer

After completing a degree in Chemical Engineering at the University of Queensland and a PhD in Biomedical Engineering at the University of Toronto, Dr Evans joined Johnson & Johnson UK where he worked for 19 years in Research & Development and Manufacturing. He was subsequently appointed as Vice-President of European Operations for Johnson & Johnson Professional. Dr Evans joined AMS in 1997 as Operations Director and was appointed Managing Director of Advanced Woundcare in January 1999. He became Group Chief Executive in January 2000.

Mary G Tavener ACMA, MCT, BA (Hons) Chem (Oxon)
Finance Director

Ms Tavener joined AMS as Finance Director in 1999. Prior to this she was the Group Financial Controller at BTP plc during a period of considerable corporate activity and was involved in the acquisition and disposal of several businesses that repositioned BTP plc as a fine chemical company. Her experience has been gained in manufacturing and she has held financial positions with Cadburys Ltd and Parker Hannifin, a US Engineering Corporation. Prior to BTP plc, she was the Finance Director of Churchill Tableware Ltd.

advisers

Financial Adviser
Landsbanki Securities (UK) Limited
Beaufort House,
15 St Botolph Street,
London, EC3A 7QR

NOMAD
Landsbanki Securities (UK) Limited
Beaufort House,
15 St Botolph Street,
London, EC3A 7QR

Auditors
Baker Tilly UK Audit LLP
Number One Old Hall Street,
Liverpool, L3 9SX

Solicitors
Wragge & Co
55 Colmore Row, Birmingham, B3 2AS

Registrars and Transfer Office
Capita IRG Plc
Northern House, Woodsome Park,
Fenay Bridge, Huddersfield,
West Yorkshire, HD8 0LA

Bankers
HSBC Bank plc
City Branch, 4 Dale Street,
Liverpool, L69 2BZ

Patent Attorneys
Marks & Clerk
Manchester Office, Sussex House,
83–85 Mosley Street, Manchester, M2 3LG

Foley & Lardner, LLC
Building 3, Palo Alto Square,
3000 El Camino Real, Palo Alto, CA 94306

Public Relations
Buchanan Communications
45 Moorfields, London, EC2Y 9AE

A Chris Meredith BSc (Hons)
Group Commercial Director

Mr Meredith joined AMS as Group Commercial Director in July 2005. He began his career in sales for Beecham Pharmaceuticals and has continued to hold commercial roles within the healthcare industry ever since. His experience covers contract manufacturing, product development, clinical research and branded product sales all within the medical device, pharmaceutical or consumer healthcare markets. Mr Meredith has previously held senior commercial positions at Cardinal Health, Banner Pharmacaps, Aster Cephac and Smiths Industries.

R Stephen Harris BPharm, FRPharmS
Non-Executive Director

Mr Harris was appointed as a non-executive director of AMS in January 2001. His career has been in both prescription and consumer healthcare sectors, with sales, marketing and general management experience with MSD, Lilly, Boots and Reckitt & Colman before becoming a main Board Director of Medeva plc. He resigned as a director of Medeva in 1995 to set up his own consultancy business. He now holds non-executive appointments with a number of quoted and privately owned healthcare companies.

Stephen G. Bellamy BCom & ACA (NZ)
Non-Executive Director

Mr Bellamy was appointed as non-executive director of AMS on 20 February 2007. He is currently Chairman of The First Close Technology Fund which invests in early stage UK technology companies, a founding partner of Accretion Capital LLP (a new technology fund management business) and non-executive director of Clarity Commerce Solutions plc. Formerly an executive director of Sherwood International plc, and Brierley Investments' London operations, he has also held a number of other non-executive directorships and advisory roles including Budgens plc, a UK food retailer, and Dr. Foster Limited, a provider of information services to the UK health industry. He is a qualified chartered accountant.

corporate governance standing committees

Audit Committee
S G Bellamy (from 20 February 2007), Chairman (from 6 June 2007)
R S Harris
Dr G N Vernon

Remuneration Committee
R S Harris, Chairman
Dr G N Vernon
S G Bellamy (from 20 February 2007)

Nominations Committee
Dr G N Vernon, Chairman
R S Harris
S G Bellamy (from 20 February 2007)
Dr D W Evans

Company Secretary
M G Tavener

Registered Office
Road Three, Winsford Industrial Estate, Winsford, Cheshire, CW7 3PD

Registered Number
2867684

report of the directors

For the year ended 31 December 2007

The directors present their report and the audited financial statements for the year ended 31 December 2007.

Principal activities, trading review and future developments
The Group is primarily involved in the design, development, manufacture and distribution of novel high performance polymers (both natural and synthetic) for use in advanced woundcare dressings and materials and medical adhesives for closing and sealing tissue for sale into the global medical device market.

In addition to the risk factors and key performance indicators discussed below, further information about the business, its strategy, products and markets and its financial risks is contained in the Chairman's Statement on pages 6 to 9, Chief Executive's Review on pages 10 to 15 and the Financial Review on pages 16 and 17.

Principal risks and uncertainties
Advanced Medical Solutions Group plc is a business that depends on revenues through its direct sales to the NHS, sales to business partners and distributors, a successful pipeline of new products through its research and development programme to build future revenues and a manufacturing capability to produce the products it sells.

Risk associated with global economic conditions
The company has a widespread geographical market sector and customer base which minimises the impact of any single event. With an ageing population increasingly suffering health problems such as obesity and diabetes, the incidence of chronic wounds is increasing and hence the demographics are beneficial for the company.

There has been consolidation in the healthcare industry in recent years which is ongoing. This presents both opportunities and risks. Consolidation could result in the loss of a partner which could have a material effect on the results of the company.

Risk associated with revenue stream
The Group's revenues are mainly from the sale of its products. The Group enters contractual relationships with its business partners wherever possible; however, there can be no guarantee that sales will be maintained or increased in future years.

The Group maintains close partnerships with a number of companies so that not more than 20% of its revenues are from any one partner. The loss of any of these key partners could have a material impact on results.

There are also risks from pricing pressure and from competition from other products. The Group seeks to provide differentiated products that are patented wherever possible to reduce the effects of competition.

Risk associated with new products
The Group continues to invest in research and development to develop its next generation of products. By its nature, not all research leads to successful new products, although the Group believes that by monitoring progress against key milestones, it avoids excessive expenditure on projects that will not deliver a viable product. There is also the risk that the Group will not identify a new technology or opportunity before its competition and therefore miss an opportunity to gain competitive advantage.

Risk associated with manufacture
The Group seeks to work with its business partners through the use of forecasts to ensure that products are delivered on time and in full.

The Group is also exposed to the risk that margins would be eroded if price increases occur in raw materials, and the price increases could not be passed on to the business partner. Wherever possible the Group tries to maintain more than one source of the supply of key materials. Where materials can only be sourced from a sole supplier or are linked to commodity prices, the Group includes pricing mechanism clauses in its contracts wherever possible.

As a manufacturer, the Group is exposed to potential product liability claims but has in place insurance cover to manage this potential risk. The Group's products are subject to medical device regulatory approval and certification before launch. The Group's manufacturing facilities are in compliance with ISO 13485, the latest international quality assurance standard for medical devices and receives regular inspection by regulatory authorities.

The Group's financial risks are discussed in the Financial Review on pages 16 and 17.

Key Performance Indicators
The Group currently uses the following Key Performance Indicators (KPIs) to measure progress: revenue, gross margin, operating profit and earnings per share. Details on the Group's success as measured against these KPIs are included in the Financial Review on pages 16 and 17.

The Group has now identified the need to include further KPIs that address other aspects of the business. Details of these KPIs are also included in the Financial Review.

Dividends
The Group made a profit for the year to 31 December 2007 of £2.2 million. The directors do not recommend the payment of a dividend and the whole of the surplus will be transferred to reserves.

Research and Development
The Group has expensed to the income statement £784k (2006: £909k) in the year ended 31 December 2007 on research and development. In accordance with International Accounting Standards a further £294k (2006: £69k) has been capitalised. Further details on the Group's research and development are included in the Chief Executive's Review on pages 10 to 15.

Creditors' payment policy
The Group's policy for the year to 31 December 2008, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms, and to abide by the agreed terms of payment provided that the supplier performs its obligations. Where terms have not been specifically agreed, it is the Group's practice to settle invoices in line with local and industry requirements. The Group's trade creditors at 31 December 2007 represented approximately 70 days of purchases (2006: 85 days).

Charitable and political contributions
The Group did not make any charitable or political contributions during the year.

Share capital and issue of ordinary shares
The authorised and issued share capital of the Company is set out in note 27 to the accounts on page 62.

Substantial shareholdings

The company's major shareholders at 31 March 2008 are:

	No. of Ordinary Shares	%
Axa Framlington Investment Management	18,697,057	13.1
Cavendish Asset Management	11,885,000	8.3
Invesco Asset Management	8,850,000	6.2
Newton Investment Management	7,366,343	5.2
Artemis Investment Management	5,882,352	4.1
J D Slater and family	5,850,000	4.1
Acuity Capital Management	5,732,352	4.0
Aerion Fund Management	5,677,972	4.0

Employees

The Group's policy is to consult and discuss with employees through meetings, both formal and informal, those matters likely to affect employees' interests. The Employees' Consultative Committee, which comprises representatives of employees and management, meets regularly to discuss business issues and areas of concern.

Employees are incentivised directly through the Group's bonus scheme, share option schemes, deferred share bonus schemes, performance reviews, and training and development opportunities. The Group's aim is to recruit and retain sufficient skilled and motivated employees to meet the needs of the business. The required skills are defined and employees are encouraged to acquire additional skills through a skill grid structure for which they are remunerated. Each line manager is responsible for implementing this approach.

It is the Group's policy to give full and fair consideration to all applications for employment from disabled persons having regard to their particular aptitudes and abilities and to encourage the training and career development of all personnel employed by the Group, including disabled persons. Should an employee become disabled, the Group would, where practicable, seek to continue the employment and arrange appropriate training.

Employees' Share Schemes

All employees, except for participants in the Long Term Incentive Plan (LTIP), are eligible after a period of service to be granted options over shares in the company under the company's Executive Share Options Schemes, under which both Enterprise Management Incentive (EMI) options and the Unapproved options may be granted. Options granted under these schemes are not offered at a discount.

The exercising of options under these schemes is conditional on certain performance conditions which are pre-determined by the Remuneration Committee and which accord with the Joint Statement from the Investment Committees of the Association of British Insurers and the National Association of Pension Funds. Options are exercisable no earlier than 3 and no later than 10 years after the date of grant. Details of the options granted are provided in note 28 on pages 63 to 66.

The company also operates a Deferred Share Bonus Scheme (DSB) in which all employees are invited to participate. The DSB will encourage employee share ownership and will align the employees' interests with those of the shareholders. The details on the Deferred Share Bonus Scheme are provided in the Remuneration Report on pages 24 to 27.

Health and Safety and the Environment

The Group is committed to high standards in health, safety and environmental performance. It is Group policy to abide by all laws, directives and regulations pertinent to its field of operations and to act in a manner so as to minimise the effects of its operations on the environment. The company provides safe places and systems of work, safe plant and machinery, safe handling of materials and ensures that appropriate information, instruction and training is given. Regular audits are undertaken to evaluate compliance with company policy.

The business is proactive in assessing its impact on the environment. It ensures that removal of waste is only made by suitable registered and accredited organisations.

Directors and their interests

The directors of the company at 31 December 2007 and their interests, all of which are beneficially held in the share capital of the company were:

	Ordinary shares of 5p each 31 December 2007			Ordinary shares of 5p each 31 December 2006		
	Shares	**Options**	**LTIP**	Shares	Options	LTIP
G Vernon	**960,000**	**—**	**—**	860,000	—	—
D Evans	**763,859**	**616,666**	**3,001,173**	700,000	616,666	1,865,173
M Tavener	**155,421**	**300,000**	**2,214,571**	111,562	300,000	1,348,571
S Harris	**237,857**	**—**	**—**	237,857	—	—
A C Meredith	**55,000**	**—**	**1,208,000**	15,000	—	500,000
S G Bellamy	**100,000**	**—**	**—**	—	—	—

There have been no changes to the directors' interests between the end of the financial year and 18 April 2008 being less than a month prior to the date of notice of the Annual General Meeting.

Further details of the directors' remuneration and benefits are included in the Remuneration Report on pages 24 to 27.

Reappointment
At the forthcoming Annual General Meeting, Geoffrey Vernon will retire by rotation and, being eligible, will be proposed for reappointment. Details of the current directors of the Company are shown on pages 18 and 19.

Statement of Directors' Responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

UK Company law requires the directors to prepare Group and company financial statements for each financial year. Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU; and for the Company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Third party indemnity provision for directors
Qualifying third party indemnity provision was in place for the directors of the Group for the financial year.

Auditor
Baker Tilly UK Audit LLP has indicated its willingness to continue in office. Resolution 2 to appoint Baker Tilly UK Audit LLP as auditor to the Company will be proposed at the Annual General Meeting and authorises the directors to agree payment for their services.

Statement as to disclosure of information to auditor
The directors who were in office on the date of approval of these financial statements have confirmed, so far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all reasonable steps to ascertain such information and to establish that the auditor is aware of it.

Special business at the Annual General Meeting
The effect of Resolution 4, which will be proposed as an ordinary resolution, seeks your authority to amend the rules of the Advanced Medical Solutions Group Plc Unapproved Executive Share Option Scheme (the "Unapproved Scheme"), The Advanced Medical Solutions Long Term Incentive Plan, The Advanced Medical Solutions Group plc 2006 Deferred Share Bonus (Unapproved) Plan (the "Unapproved DSB") and The Advanced Medical Solutions Group plc 2006 Deferred Share Bonus (Approved) Plan (the "Approved DSB") (together, the "Plans").

The changes to the rules of the Plans would increase the current "10% in 10 years" share capital limit in each of the Plans which applies to the grant of options and/or making of awards over new issue shares in the Company under each of the Plans and any other employees' share scheme of the Company to a "15% in 10 years" limit in each of the Plans.

Additionally, changes would be made to the Unapproved Scheme and the Unapproved DSB removing the current prohibitions in that Scheme and Plan against granting options (awards in the case of the Unapproved DSB) within a specified period prior to the retirement of an otherwise eligible employee under that Scheme or Plan (the period of 2 years prior to retirement in the case of the Unapproved Scheme and of 6 months prior to retirement in the case of the Unapproved DSB). Such provisions were included in the Unapproved Scheme and the Unapproved DSB to take account of previous requirements of guidelines issued by the Association of British Insurers for share-based incentive schemes (the "Guidelines") which are no longer required by the Guidelines, being considered to be age discriminatory and in conflict with EU legislation intended to combat age discrimination implemented in the UK in October 2006.

Changes would also be made to the Unapproved Scheme to remove the current full-time working requirement for a director who is employed by a participating Company in the Unapproved Scheme to be eligible to be granted an option under the Unapproved Scheme. This requirement was included in the Unapproved Scheme to take account of a previous requirement of the Guidelines which is no longer required by the Guidelines, being considered to be potentially sex discriminatory. A further change to the Unapproved Scheme would increase the current maximim individual limit for the grant of enterprise management incentive ("EMI") options under the Unapproved Scheme from the "£100,000" limit referred to in the Unapproved Scheme to "£120,000", being the new maximum limit for EMI options granted on and following 6 April 2008, as introduced in the Budget on 12 March 2008.

The change to The Approved DSB will only take effect once HM Revenue & Customs has approved the amendment and confirmed it does not affect the approved status of the Approved DSB.

Copies of the Plans, as proposed to be amended, will be available for inspection at the Company's registered office at Road Three, Winsford Industrial Estate, Winsford, Cheshire, CW7 3PD during normal office hours from the date of issue of the Notice of Annual General Meeting until the date of the Annual General Meeting and at the Meeting itself.

Further details on this are included in the Remuneration Report.

The effect of Resolution 5 which will be proposed as a special resolution at the meeting would be to disapply the statutory pre-emption rights conferred by Section 89 of the Companies Act 1985 to a limited extent, that is to say:

- In connection with generally pre-emptive issues; or
- In respect of shares having an aggregate nominal value of £710,412.68 representing approximately 10% of the nominal value of the Company's current issued ordinary share capital

The resolution will cease to have an effect a the conclusion of the Company's Annual General Meeting to be held in 2009 or, if earlier, fifteen months after the date of the passing of this resolution.

Annual General Meeting

The Annual General Meeting will be held on 3 June 2008 at 11.00 am at the Macdonald Portal Hotel, Cobblers Cross Lane, Tarporley, Cheshire, CW6 0DJ. Details of the notice of the Annual General Meeting are given on pages 78 and 79. The Annual General Meeting provides an opportunity for private shareholders to question your Board and to meet informally with the executive management after the meeting.

By order of the Board

Mary G Tavener
Company Secretary
18 April 2008

remuneration report

The members of the Remuneration Committee are all non-executive directors of the Group and have no personal financial interest arising from cross-directorship and no day-to-day involvement in running the business. The Committee met twice during the year. New Bridge Street Consultants LLP, who have experience in executive remuneration and share schemes, were appointed by the Committee to provide independent advice and analysis on remuneration matters, including the provision of competitive market data. New Bridge Street Consultants LLP also assisted the Group on the measurement of Total Shareholder Return on the company's LTIP scheme.

The Board has accepted the Remuneration Committee's recommendations in full.

The Remuneration Committee, on behalf of the Board and in consultation with the Chief Executive, determines the Group's policy on executive remuneration, employment conditions, and the individual remuneration packages of executive directors and management earning in excess of £50,000 per annum and administers the Share Option Schemes.

The Group has complied during the year with Section 1B 'Directors' Remuneration' of the provisions of the Combined Code and the Schedules A & B to the Combined Code.

Remuneration policy

The remuneration policy is based on the need to offer competitive packages to attract and retain senior executives of the highest calibre. Regular reviews of the policy are carried out, supported by independent advice, to ensure that the range and level of emoluments and incentive schemes continue to match current market practice.

Salary

Salaries are measured against performance and market medians.

Annual performance bonus

The service agreements provide that each executive director shall be entitled to receive an annual bonus to be determined by the Remuneration Committee based on the Group's financial and operating performance. Each participant may receive up to 40% of his or her salary dependent upon performance measured against targets resulting from the completion of the Group's business plan and the performance of the Group is measured by total shareholder return compared with the FTSE Small Cap Index. Following a review by New Bridge Street Consultants LLP, the Remuneration Committee has determined that market practice is to allow executive directors to receive up to 60% of his or her salary as bonus but only on achievement of testing targets. From January 2008, it will be possible for the executive directors to earn up to 60% of their salary upon achieving such targets; however, a percentage of the bonus earned will be required to purchase shares in AMS in the marketplace.

Long Term Incentive Plan

All employees, except for participants in the Long Term Incentive Plan (LTIP), can be granted options over shares in the company under the company's Executive Share Option Schemes, under which both Enterprise Management Incentive (EMI) options and Unapproved options may be granted. Options granted under these schemes are not offered at a discount.

The exercising of options under these schemes is conditional on certain performance conditions which are pre-determined by the Remuneration Committees and which accord with the Joint Statement from the Investment Committees of the Association of British Insurers and the National Association of Pension Funds. Full details of these are included in note 28 on page 63.

Following feedback from shareholders, proposals for the adoption of a LTIP were introduced as the most appropriate vehicle for long-term incentivisation for executive directors and other key employees. The company's LTIP was approved by shareholders on 24 May 2005. Those individuals who are entitled to awards under the LTIP are no longer eligible to receive options under the company's Executive Share Option Schemes. Any options issued to those employed prior to the introduction of the LTIP will still be exercisable subject to the relevant performance criteria being met. The objectives of the LTIP are to align the interests of executives with those of shareholders by making a part of remuneration dependent on the success of management in delivering superior returns to shareholders.

Awards under the LTIP are subject to performance conditions determined by the Remuneration Committee. Participants may be awarded shares up to a maximum value of 150% of their basic annual salary in any year. The shares will vest three years after the date of award provided certain performance conditions are met.

The release of shares to participants will depend upon growth in AMS's Total Shareholder Return (TSR) over a three year period relative to a comparator group of companies at the start of the period. TSR is a measure of the return on an investment in the company's shares based on both share price improvement and dividends. No shares will be released unless the company's TSR performance is ranked at least the median performing company within the comparator Group. At this level 30% of the award will vest at the end of the performance period. If AMS achieves a ranking in the top quartile of the comparator group, 100% of the award will vest. Where the company achieves a ranking between the median and the top quartile the amount of the award will be determined on a straight-line basis.

As with share options granted under the Company's share options plans, awards will not vest if the company is not profitable at the end of the performance period.

TSR was selected by the Committee to be the appropriate measure for this plan as it believes it to be a long-term indication of financial success and one which is acceptable to shareholders.

After consultation with New Bridge Street Consultants LLP the Group believes that any future LTIP awards should have performance conditions based on both earnings per share and TSR.

Deferred Share Bonus Plan

The Company has also set up a Deferred Share Bonus Plan (the "DSB") which is available to all employees. The DSB allows for the payment of any bonus to be made in the form of shares. It also allows for the provision of additional matching shares if the bonus shares are held for a set period. DSB encourages employees to acquire shares in the Company and retain those shares to receive additional free shares from the company. It acts as a valuable retention tool and aligns the employees' interests with those of shareholders. The first year that the DSB operated was 2007. The Company intends to continue to operate the scheme in 2008.

Changes to the Rules of the Company's Share Incentive Plans

As a result of the review of the Company's Share Option Schemes and LTIPs the Company has identified that the dilution effect of these schemes is 8.8%. This will leave the Company with a 1% headroom under its current 10% limit. As the Company grows, both organically and through acquisition, it will look to hire some key individuals to help achieve its growth strategy. The Company is seeking to increase the dilution limit from 10% to 15% so that it will be in a position to attract and retain those key people to drive the business forward. This will provide the Company with sufficient headroom for the next five years when options previously issued will start to fall outside the 10 year rule.

Additionally, recent legislation has resulted in some of the rules in our share incentive plans requiring amendment.

Resolution 4, as described in the Directors' Report, seeks shareholder approval to increase the dilution limit for all schemes from 10% to 15% and to amend the rules so that the schemes meet current legislation.

Pension

Executive directors are entitled to become members of the Group Pension and Life Assurance Scheme, which was set up with effect from 1 February 1999. This covers all employees and requires a contribution of 3% by the employee and 6% by the Group. Executive directors may contribute up to 10%, and the Group contributes 10%. The Pension Plan is a money purchase scheme.

Service agreements

The service agreements for Don Evans, Mary Tavener and Chris Meredith are terminable by either party giving not less than 12 months' notice in writing.

Private healthcare

Executive directors are entitled to private healthcare and permanent health insurance.

Car

The Company no longer considers it to be market practice to offer company vehicles to executive directors. Salaries now include an amount to cover the cost of a car.

Non-executive directors

The fees of the non-executive directors are determined by the executive directors. Non-executive directors receive travel expenses but do not participate in any incentive arrangements. The non-executive directors have entered into terms of appointment. The non-executive directors' appointments are terminable by either party upon 6 months' notice in writing.

Directors' detailed emoluments

	Salary & fees £'000	Annual bonus £'000	Benefits £'000	Pension £'000	Paid to third parties £'000	**Total year ending 2007 £'000**	Total year ending 2006 £'000
Executive							
Don Evans	171	50	15	17	—	**253**	246
Mary Tavener	124	36	—	12	—	**172**	161
Chris Meredith	115	34	1	11	—	**161**	134
Non-executive							
Geoffrey Vernon	—	—	—	—	46	**46**	46
Steve Harris	—	—	—	—	27	**27**	26
Steve Bellamy	—	—	—	—	25	**25**	—
	410	120	16	40	98	**684**	613

The opening share price for the year was 13.75p and the closing price on the last trading day of 2007 (31 December) was 25p.

The range during the year was 27.25p (high) and 13.25p (low). (Source: daily official list of the London Stock Exchange.)

Directors' interests in share options

Unapproved Executive Share Option Scheme:

	Number of Ordinary shares under option				
	as at 31 Dec 2006	lapsed in the year	as at 31 Dec 2007	Exercise price (p)	Date of grant
Don Evans	616,666	—	616,666	9.00	15 July 2004
Mary Tavener	300,000	—	300,000	9.00	15 July 2004

These options are exercisable on or after the third anniversary of the date of the grant and will lapse on the tenth anniversary of the date of the grant.

Directors' interests in the Long-Term Incentive Plan (LTIP)

The maximum numbers of shares to be allocated to the directors under the LTIP, in each case for an aggregate consideration of £1, are as follows:

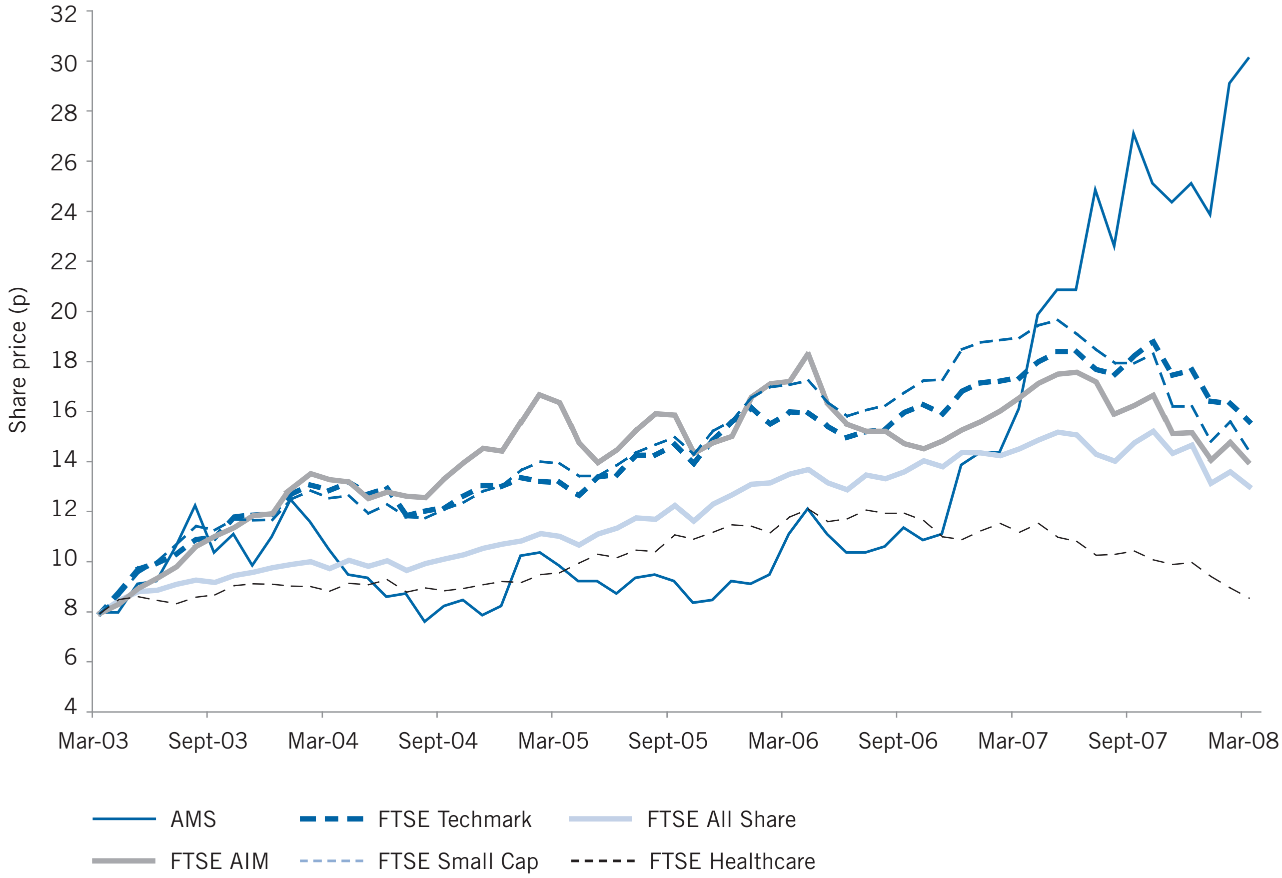
	As at 31 December 2006	Granted in the year	As at 31 December 2007	Market price at date of grant (p)	First vesting date
Don Evans	1,865,173	—	1,865,173	8.75	1 January 2008
	—	1,136,000	1,136,000	16.75	1 January 2010
Mary Tavener	1,348,571	—	1,348,571	8.75	1 January 2008
	—	866,000	866,000	16.75	1 January 2010
A Chris Meredith	500,000	—	500,000	8.75	1 January 2008
	—	708,000	708,000	16.75	1 January 2010

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on page 23. The figures shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved. New Bridge Street Consultants LLP have advised on the TSR performance of the Company's shares for the LTIPs granted in 2005 and have advised that AMS's TSR was in the top quartile of performance against the comparator group and that consequently 100% of the award will vest.

Awards made have no performance retesting facility.

Five Year Share Performance

For the five year period ended 30 March 2008, Advanced Medical Solutions Group plc share price has outperformed the FTSE All Share by 132%, FTSE Techmark by 93.2%, FTSE Health Care by 253.9%, FTSE Small Cap Index by 109% and FTSE AIM by 116.3%.



Mary Tavener
Company Secretary
18 April 2008

corporate governance

The Board is committed to the principles of corporate governance and has continued to apply the Combined Code in a manner which it considers appropriate for the size of the Group. In compliance with the Code, the narrative below describes how the Group applied the principles, any details of non-compliance and the reasons for this.

The Board of Directors
The Board retains full and effective control of the Group and has a schedule of matters specifically reserved for its decision. The Board meets on a formal basis regularly, and met formally 6 times in 2007. All of the directors attended all of the meetings. Prior to each Board Meeting, directors are sent an agenda including monthly management accounts and accompanying reports from the executive directors. Additionally, the Board is responsible for formulating the Group's corporate strategy, approval of budgets, monitoring financial performance, approval and review of major capital expenditure, corporate governance and risk management. Operational control is delegated to the executive directors and the executive management committee (EMC). The EMC meets monthly. All directors have access to the advice and services of the Company Secretary and can take independent professional advice, if necessary, at the Group's expense. The non-executive directors are able to contact the executive directors at any time for further information.

The Board consists of three executive directors and three non-executive directors. Whilst the Board does not meet the Combined Code requirements, in that at least half of the Board excluding the Chairman should comprise non-executive directors, the Board believes it is appropriate for the size of the Group. The Chairman is one of the non-executive directors and there is a clear division of responsibility between the Chairman and Chief Executive. All of the non-executive directors are considered to be independent and independent of the executive management. They are able to discuss matters without the executive directors present. The Board formally evaluates its performance annually. Each director completes a comprehensive questionnaire, the results are collated by the Company Secretary and discussed by the Board. The Board then acts upon the findings. Given the size of the Board, the Board does not have a Senior Independent Director. All directors are required to stand for re-election at the first annual general meeting following their appointment and, as a minimum, every three years, thereafter.

Board Committees
The Board has delegated specific authority to the Remuneration Committee, Nominations Committee and the Audit Committee. The non-executives are the only members of the Remuneration and Audit Committees.

The Audit Committee is chaired by Stephen Bellamy, a chartered accountant, and met three times in 2007. The Committee considers the appointment and fees of the auditors and discusses the scope of the audit and its findings. It is also responsible for monitoring the Group's accounting policies, assessing the Group's internal controls and reviewing the annual and interim statements prior to their submission for approval by the Board. The Committee has the right of access to the external auditors without the attendance of the executive directors, and does so regulary.

The Audit Committee also undertakes a formal assessment of the auditor's independence which includes:

- A review of non-audit services provided to the Group and related fees.
- Discussion with the auditors of a written report detailing all relationships with the company and any other parties that could affect independence or the perception of independence.
- A review of the auditor's own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner.
- Obtaining written confirmation from the auditor that, in its professional judgement, it is independent.
- An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in note 5 of the financial statements.

The lead external audit partner is rotated on a five-year basis. For the year ended 31 December 2007 the Committees has concluded that the external auditor remains independent and is effective.

The Remuneration Committee comprising solely of the non-executive directors is chaired by Steve Harris and, in consultation with the Chief Executive, determines the Group's policy on executive remuneration, employment conditions and the individual remuneration packages of executive directors and senior management earning in excess of £50,000 per annum. It approves all new incentive schemes, the grants of options under the Group's Share Option Schemes, and the grant of shares under the Group's Long Term Incentive Plan (LTIP). The Remuneration Committee met twice in 2007. Its report is included on pages 24 to 27.

The Nominations Committee nominates and recommends the appointment of new directors to the Board and determines the Group's policy on succession planning. In making recommendations, the Committees takes into account the balance of skill, knowledge and experience of the Board. The Committee is chaired by the Chairman of the Group and comprises the non-executive directors and the Chief Executive. The Nominations Committee met once in 2007.

Investor Relations
The Group maintains a regular dialogue with its shareholders, mainly in the periods following the announcement of the interim and final results, but also at other times during the year. The views of shareholders are sought through direct contact and from feedback from advisors and are communicated to the Board as a whole. The Board encourages the participation of shareholders at its annual general meeting, notice of which is sent to shareholders at least 20 working days before the meeting. The AMS website 'www.admedsol.com', which was redesigned in 2007, is regularly updated and provides additional information on the Group including information of the Group's products and technology.

The Company proposes separate resolutions for each issue. The company ensures all proxy votes are counted and indicates the level of proxies on each resolution along with the abstentions after it has been dealt with on a show of hands.

Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. In the context of the Group's business any such system can only reasonably be expected to manage rather than eliminate risks arising from its operations. It can therefore only provide reasonable and not absolute assurance against material loss or misstatement.

The Combined Code required directors to review the effectiveness of the Group's system of internal control in the wider sense, encompassing operational and compliance matters in addition to the traditional financial issues.

Key features of the internal control system are as follows:

- The Group has an organisational structure with clearly established responsibilities and lines of accountability. The Group promotes the values of integrity and professionalism. The members of the Board are available to hear, in confidence, any individuals concerns about improprieties.
- The Board has a schedule of matters expressly reserved for its consideration. This schedule includes acquisitions, major capital projects, treasury, risk management policies and approval of budgets and health and safety.
- An ongoing risk management process has been implemented which identifies the key business risks facing the Group including both financial and operational risks.
- The controls in place to minimise the occurrence of the risk are documented and analysed for effectiveness. These include procedures for the approval of major expenditure or commitment of resources.
- The Board monitors the activities of the Group through the management accounts, monthly forecasts and other reports on current activities and plans. The executive management regularly monitors financial and operational performance in detail and takes any necessary corrective action.

The Board reviews and continues to review the effectiveness of the Group's procedure in managing risk and, therefore, believes it meets the requirements of the Guidance.

The Audit Committee has considered the need for internal audit. It is of the opinion that, given the size and nature of the Group's operations and the other controls in place, it would not be appropriate at the present time. The matter is formally reviewed at least annually. The Group does call on the services of external bodies to review the controls in certain areas of the Group. The quality assurance systems are reviewed by the Group's notified bodies, the British Standards Institute (BSI) and TUV Product Service on a regular basis. The British Safety Council also reviews and reports on the Health and Safety Systems in the Group each year.

Going Concern

The directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Compliance with the Combined Code

During the year ended 31 December 2007, the Group has been in compliance with the requirements of the Combined Code, except in the following area:

- The Board believes that given its size and complexity it is not appropriate to specify a 'senior' non-executive director.
- The non-executive directors did not meet the executive directors without the Chairman present to appraise his performance.
- The Terms of Reference of the Nomination, Remuneration and Audit Commitees are not available on the Company's website.

By order of the Board

Mary G Tavener
Company Secretary
18 April 2008

independent auditor's report to the members of Advanced Medical Solutions Group plc

We have audited the Group and parent company financial statements on pages 32 to 76.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU"), and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Highlights, At a Glance, the Strategy, the Chairman's Statement, Chief Executive's Review, Financial Review, Board of Directors, Advisers and Committees, Report of the Directors, Remuneration Report and Corporate Governance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly UK Audit LLP
Registered Auditor
Chartered Accountants
Number One Old Hall Street
Liverpool L3 9SX
18 April 2008

financial statements

consolidated income statement

For the year ended 31 December 2007

	Note	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Revenue	3	**16,856**	14,322
Cost of sales		**(9,431)**	(8,280)
Gross profit		**7,425**	6,042
Distribution costs		**(130)**	(107)
Administration costs		**(6,158)**	(5,912)
Profit/(loss) on disposal of property, plant and equipment		**3**	(11)
Other income	4	**512**	480
Profit from operations		**1,652**	492
Finance income	9	**282**	149
Finance costs	10	**(29)**	(29)
Profit before taxation		**1,905**	612
Income tax		**331**	135
Profit for the year attributable to equity holders of the parent	12	**2,236**	747
Earnings per share			
Basic	13	**1.57p**	0.52p
Diluted	13	**1.48p**	0.50p

The above results relate to continuing operations.

consolidated balance sheet

At 31 December 2007

	Note	2007 £'000	2006 £'000
Assets			
Non-current assets			
Acquired intellectual property rights	14	**1,566**	1,734
Software intangibles	14	**45**	29
Development costs	14	**342**	64
Property, plant and equipment	15	**2,910**	3,094
Deferred tax assets	16	**1,421**	828
Trade and other receivables		**200**	200
		6,484	5,949
Current assets			
Inventories	17	**1,726**	1,786
Trade and other receivables	18	**3,504**	3,719
Tax receivable		**—**	17
Investments		**6,654**	3,950
Cash and cash equivalents		**876**	602
		12,760	10,074
Total assets		**19,244**	16,023
Liabilities			
Current liabilities			
Trade and other payables	19	**2,909**	2,415
Other taxes payable		**276**	244
Financial liabilities	20	**15**	14
Obligations under finance leases		**5**	5
		3,205	2,678
Non-current liabilities			
Financial liabilities	21	**279**	295
Obligations under finance leases	21	**14**	1
		293	296
Total liabilities		**3,498**	2,974
Net assets		**15,746**	13,049
Equity			
Share capital	27	**7,157**	11,782
Share-based payments reserve		**154**	60
Investment in own shares		**(13)**	—
Share-based payments deferred tax reserve		**320**	67
Share premium		**17**	37,978
Other reserve		**1,531**	1,531
Retained earnings		**6,580**	(38,369)
Equity attributable to equity holders of the parent		**15,746**	13,049

The financial statements on pages 32 to 67 were approved by the Board of Directors and authorised for issue on 18 April 2008 and were signed on its behalf by:

Dr D W Evans
Chief Executive Officer
18 April 2008

consolidated statement of changes in equity

Attributable to equity holders of the Group

	Share capital £'000	Share-based payments £'000	Share-based payments deferred tax £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2006	11,782	18	1	37,978	1,531	(39,116)	12,194
Share-based payments	—	42	—	—	—	—	42
Share-based payments							
— deferred tax	—	—	66	—	—	—	66
Consolidated profit for the year to							
31 December 2006	—	—	—	—	—	747	747
At 31 December 2006	11,782	60	67	37,978	1,531	(38,369)	13,049

	Share capital £'000	Share-based payments £'000	Investment in own shares £'000	Share-based payments deferred tax £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2007	11,782	60	—	67	37,978	1,531	(38,369)	13,049
Share-based payments	—	94	—	—	—	—	—	94
Share-based payments								
— deferred tax	—	—	—	253	—	—	—	253
Issue of share capital	34	—	—	—	—	—	—	34
Share options exercised	19	—	—	—	17	—	—	36
Cancellation of deferred shares	(4,678)	—	—	—	—	—	4,678	—
Cancellation of share								
premium account	—	—	—	—	(37,978)	—	37,978	—
Shares purchased by EBT	—	—	(34)	—	—	—	—	(34)
Shares sold by EBT	—	—	21	—	—	—	—	21
Surplus on EBT	—	—	—	—	—	—	57	57
Consolidated profit for the year to								
31 December 2007	—	—	—	—	—	—	2,236	2,236
At 31 December 2007	**7,157**	**154**	**(13)**	**320**	**17**	**1,531**	**6,580**	**15,746**

consolidated cash flow statement

For the year ended 31 December 2007

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Cash flows from operating activities		
Profit from operations	1,652	492
Adjustments for:		
Depreciation	686	804
Amortisation — intellectual property rights	168	168
— development costs	16	5
— software intangibles	19	13
(Profit)/loss on sale of non-current assets	(3)	11
Decrease/(increase) in inventories	60	(117)
Decrease/(increase) in trade and other receivables	396	(472)
Increase in trade and other payables	603	483
Share-based payments expense	94	42
Net cash inflow from operating activities	3,691	1,429
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	3	8
Purchase of software	(35)	(21)
Research and development	(294)	(69)
Purchases of property, plant and equipment	(502)	(288)
Taxation	9	78
Investment in money market deposits	(2,704)	(964)
Interest received	101	74
Net cash used in investing activities	(3,422)	(1,182)
Cash flows from financing activities		
Finance lease	(8)	(6)
Repayment of secured loan	(15)	(13)
Issue of equity shares	70	—
Shares purchased by EBT	(34)	—
Shares sold by EBT	21	—
Interest paid	(29)	(28)
Net cash from/(used in) financing activities	5	(47)
Net increase in cash and cash equivalents	274	200
Cash and cash equivalents at the beginning of the year	602	402
Cash and cash equivalents at the end of the year	876	602

notes forming part of the consolidated financial statements

1. Reporting entity

Advanced Medical Solutions Group plc ("the company") is a public limited company incorporated and domiciled in England and Wales (registration number 2867684). The company's registered address is Road Three, Winsford Industrial Estate, Winsford, Cheshire, CW7 3PD.

The company's ordinary shares are traded on the AIM market of the London Stock Exchange plc. The financial statements of the company for the twelve months ended 31 December 2007 comprise the company and its subsidiaries (together referred to as the "Group").

The Group is primarily involved in the design, development and manufacture of novel high performance polymers (both natural and synthetic) for use in advanced woundcare dressings and materials and medical adhesives for closing and sealing tissue, for sale into the global medical device market.

Basis of preparation

In 2007 the Group has adopted International Financial Reporting Standards (IFRSs) as adopted by the EU for the first time.

The Group has applied IFRS 1 First Time Adoption of International Financial Reporting Standards to provide a starting point for reporting under IFRS. The Group's date of transition to IFRS is 1 January 2006 and all comparative information in the financial statements is restated to reflect the Group's adoption of IFRS, except where otherwise required or permitted under IFRS 1.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements. They have also been applied in preparing an opening IFRS balance sheet at 1 January 2006 for the purposes of the transition to IFRSs, as required by IFRS 1. The impact of the transition from UK GAAP to IFRSs on the Group's income statement and balance sheet is explained in Note 30.

The financial statements have been prepared on the historical cost basis of accounting except as disclosed in the accounting policies set out below.

The individual financial statements for each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

2. Accounting policies

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Classification of leases

The Group utilises assets subject to operating and finance leases. The classification of these leases is based on a number of factors such as risk and reward, length of use and the fair value of minimum lease payments. Lease classification is made at the inception of the lease.

Share-based payment

The charge to the income statement in relation to options and incentive plans is based on the Black–Scholes Merton valuation technique. This technique requires a number of assumptions to be made such as those in relation to share price volatility, movement in interest rates, dividend yields and staff behavioural patterns.

2. Accounting policies continued

Inventory impairment provisions

The Group makes provisions for inventory deemed to be irrecoverable. This provision is established on each individual stock keeping unit (SKUs) based on the age of the stock, the forward order book, management's experience and its assessment of the present value of estimated future cash flows.

Receivables impairment provisions

The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the present value of estimated future cash flows.

Deferred tax

A deferred tax asset is recognised when it is judged probable that the Group will generate taxable profits which can be offset against tax losses.

Transition to IFRSs

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 30.

IFRS 1 grants certain exemptions from the full requirements of IFRSs in the transition period. The following exemptions have been taken in these consolidated financial statements:

- Business combinations that took place prior to 1 January 2006 have not been revisited under IFRS 3 'Business Combinations'. IFRS 3 has been applied prospectively from the date of transition.
- Land and buildings at the date of transition to IFRSs have been measured at fair value. This fair value has been adopted as deemed cost at the date of transition.
- Cumulative translation differences for all foreign operations have been deemed to be zero at 1 January 2006.
- IFRS 2 'Share-based payment' has not been applied to share-based payments granted before 7 November 2002 nor those granted after 7 November 2002 that had vested prior to 1 January 2006.

The Group has adopted IFRS 2 for share options granted after 7 November 2002 which had not vested at 1 January 2006. The adoption of IFRS 2 has not required numerical adjustments to be made to the balance sheet at 1 January 2006 nor to the income statement for the year ended 31 December 2006.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to retain benefits from its activities. Subsidiaries are included in the consolidated financial statements on the basis of both acquisition and merger accounting, from the date that control commences until the date that control ceases.

Intercompany transactions and balances between Group entities are eliminated upon consolidation.

Goodwill

Goodwill written off to reserves under UK GAAP prior to 1998 of £5,586k has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

Revenue represents the fair value of sales of the Group's products to external customers at amounts less value added tax, and is recognised when the products have been delivered and title has passed. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue from royalty income receivable under licence agreements from external customers at amounts less value added tax is recognised as the products under licence are sold and the revenue can be reliably measured.

2. Accounting policies continued

Other income

This represents non-refundable upfront licence payments received for the grant of rights for the development and marketing of products, contributions received to research and development, and other sundry income. The income is recognised in the income statement, over the life of each development project, in proportion to the stage of completion for each project.

Finance income

Finance income relates to interest earned on cash, cash equivalents and investments. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Finance costs

Finance costs relate to finance payments associated with financial liabilities. They are recognised in the income statement as they accrue using the effective interest method.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Foreign currencies

The presentation currency for the consolidated financial statements is pounds sterling.

The financial statements for each of the Group's subsidiaries are prepared using their functional currency. The functional currency is the currency of the primary economic environment in which an entity operates.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates at the dates of the transactions.

Taxation

Taxation expense includes the amount of current income tax payable and the charge for the year in respect of deferred taxation.

The income tax payable is based on an estimation of the amount due on the taxable profit for the year. Taxable profit is different from profit before tax as reported in the income statement because it excludes items of income or expenditure which are not taxable or deductible in the year as a result of either the nature of the item or the fact that it is taxable or deductible in another period. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is accounted for on a basis of temporary differences, except to the extent where it arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case it is dealt with within equity. It is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

2. Accounting policies continued

Intangible assets

Acquired intellectual property rights

Intellectual property rights that are acquired in a business combination are initially recognised at their fair value. Intellectual property rights purchased outright are initially recognised at cost. Intellectual property rights are capitalised and amortised over their estimated useful economic lives, usually not exceeding 18 years. In determining the useful economic life each asset is reviewed separately and consideration given to the period over which the Group expects to derive economic benefit from the asset.

Development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is recognised in the income statement as an expense in the period in which it is incurred.

Expenditure on development activities where research findings are applied to a plan or design for the production of new or substantially improved products and processes is capitalised once it can be demonstrated that the product or process is clearly identifiable, technically and commercially feasible, will generate future economic benefits, that the development costs of the asset can be measured reliably and the Group has sufficient resources to complete development. Expenditure capitalised is stated as the cost of materials, direct labour and an appropriate proportion of overheads less accumulated amortisation.

Where development expenditure results in new or substantially improved products or processes and it is probable that recovery will take place, it is capitalised and amortised on a straight-line basis over the product's useful life starting from the date on which serial production commences which is between one and ten years. Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives which is between three and twenty years.

Software intangibles

Where computer software is not integral to an item of property, plant or equipment its costs are capitalised and categorised as intangible assets. Amortisation is provided on a straight-line basis over its economic useful life which is in the range of three to five years.

Property, plant and equipment

Land and buildings and plant and equipment held for use in the production of goods and services or for administrative purposes are carried in the balance sheet at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Group has elected to use the fair value as the deemed cost in respect of land and buildings at the date of transition to IFRS. Fair value has been calculated by reference to their existing use at the date of transition.

Depreciation is provided to write off the cost, less estimated residual values, of all property, plant and equipment, over the expected useful life of the asset from the date that the asset is brought into use. It is calculated at the following rates:

- Freehold property — 4% per annum on cost
- Leasehold improvements — over the length of the lease
- Plant and machinery — 6.67% to 33.3% per annum on cost
- Fixtures and fittings — 33.3% per annum on cost
- Motor vehicles — 25% per annum on cost

No depreciation is provided on freehold land.

2. Accounting policies continued

Impairment

The carrying amount of the Group's assets, other than inventories and deferred tax assets, is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows. As the Group's receivables are of short duration they are not discounted.

Reversal of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventory

Inventory is valued at the lower of cost or net realisable value. Cost is calculated as follows;

Raw materials	— cost of purchase on first in, first out basis
Work in progress and finished goods	— cost of raw materials and labour and attributable overheads

Net realisable value is based on estimated selling price less further costs to completion and disposal.

The Group makes provision for inventory deemed to be irrecoverable or where the net realisable value is lower than cost. This provision is established on a stock keeping unit (SKU) basis by reference to the age of the stock, the forward order book and management's experience.

Financial Instruments

Classification of financial instruments

Financial instruments are classified as financial assets, financial liabilities or equity instruments.

Following the adoption of IAS 32 'Financial Instruments: Presentation', financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions.

- They include no contractual obligations upon the Group to deliver cash or other financial assets that are potentially unfavourable to the Group.
- Where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

2. Accounting policies continued

Recognition and valuation of financial assets

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash deposits and amounts under short-term guarantees usually three months or less that are held for the purpose of meeting short-term cash commitments and are subject to insignificant risk in change in value which are readily convertible to a known amount of cash.

Investments

Cash held in accounts with more than 90 days' notice that are not required to meet short-term cash commitments are shown as an investment. The Group invests funds which are surplus to requirements in fixed rate deposits operating within parameters for credit ratings and credit limits for individual institutions that are approved and monitored by the Board.

Under IAS 39 'Financial instruments: recognition and measurement', such investments are classified as loans and receivables and are recognised at fair value on initial recognition and subsequently measured at amortised cost using the effective interest method.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. An impairment is made when it is likely that the balance will not be recovered in full. The recoverable amount is calculated as the present value of estimated future cash flows. Estimated future cash flows are not discounted due to the relatively short period of time between recognition of trade receivables and receipt of cash.

Recognition and valuation of equity instruments

Equity instruments are stated at par value. Premiums on issue are taken to a share premium reserve.

Ordinary share capital

Equity instruments are recorded initially at fair value. For ordinary share capital, the par value is recognised in share capital and the premium in the share premium reserve.

Recognition and valuation of financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Trade payables

Trade payables are initially recognised at fair value and are subsequently recognised at amortised cost using the effective interest method.

Other loans

Other loans are initially recognised at fair value and are subsequently recognised at amortised cost.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held as finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments during the lease term at the inception of the lease. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest in the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the assets and the lease term.

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement. Lease incentives, primarily upfront cash payments or rent-free periods, are capitalised and spread over the period of the lease term. Payments made to acquire operating leases are treated as prepaid lease expenses and amortised over the life of the lease.

2. Accounting policies continued

Pensions

The Group operates a money purchase pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against the income statement represents the contributions payable to the scheme in respect of the accounting period.

Share-based payment transactions

The Group has applied the requirements of IFRS 2 Share-based payments. IFRS has been applied to all options granted after 7 November 2002 that were unvested as of 1 January 2006.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value as determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of options that will eventually vest.

Fair value is measured by use of a Black-Scholes Merton model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

Share-based payments relate to employees of the subsidiaries and as such are recharged to the subsidiaries' accounts.

Capital management

For the years ended 31 December 2006 and 31 December 2007, the Group has had net funds with minimal borrowings. Capital is managed by maximising retained profits. Working capital is managed in order to generate maximum conversion of these profits into cash and cash equivalents thereby maintaining capital. The share capital of the Group has increased as noted above.

Capital includes share capital, share premium, investment in own shares, share-based payments reserve, share-based payments deferred tax reserve, other reserve and retained earnings reserve. There are no externally imposed capital requirements on the Group.

Cash flow

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less that are held for the purpose of meeting short-term cash commitments and are subject to insignificant risk in change in value. Cash held in accounts with more than 90 days' notice that are not required to meet short-term cash commitments are shown as an investment.

Employee benefit trusts

The Group operates an Employee Benefit Trust (EBT): 'Advanced Medical Solutions Group plc UK Employee Benefit Trust'.

The Group has de facto control of the assets, liabilities and shares held by the Trust and bear their benefits and risks. The Group records certain assets and liabilities of the Trust as its own.

In compliance with Standing Interpretations Committee 12 (SIC 12) 'Consolidation — Special Purpose Entities', Group shares held by the EBT are included in the consolidated balance sheet as a reduction in equity. Gains and losses on Group shares are recognised directly in reserves.

2. Accounting policies continued

IFRSs adopted early

The Group has elected to adopt the following in advance of its effective dates.

IFRS 8 operating segments — effective for accounting periods beginning on or after 1 January 2009.

IFRS 8 is a disclosure standard which has resulted in a redesignation of the Group's reportable segments (see note 3), but has had no impact on the reported results or financial position of the Group.

IFRSs not yet effective and not adopted early

The following IFRSs have been issued but have not been adopted by the Group in these financial statements as they are not yet effective:

- IFRIC 11 'IFRS 2 — Group and treasury share transactions' gives guidance on the accounting treatment of share-based payment within a group and is effective for periods beginning on or after 1 March 2007. As the adoption will require intra-Group transfers which will be eliminated on consolidation, there will be no effect on the results or net assets of the Group.
- IFRIC 12 'Service concession arrangements' gives guidance on the accounting treatment relating to service arrangements over public infrastructures and is effective for periods beginning on or after 1 January 2008. As the Group does not enter into such arrangements, the adoption will have no impact upon the results or net assets of the Group.
- IFRIC 13 'Customer loyalty programmes' give guidance on the treatment of the grant of award credits under a customer loyalty programme and is effective for periods beginning on or after 1 July 2008. As the Group does not operate such schemes, the adoption will have no impact upon the results or net assets of the Group.
- IFRIC 14 'IAS 19 — the limit on a defined benefit asset, minimum funding requirements and their interaction' gives guidance on accounting for a pension surplus and is effective for periods beginning on or after 1 January 2008. As the Group does not have a pension surplus, the adoption will have no impact upon the results or net assets of the Group.
- IAS 1 'Presentation of financial statements' — Revision. This revision aims to assist users in their ability to analyse and compare the information given in the financial statements. Changes include changes to titles of some of the financial statements and changes to the components of financial statements. The revision is effective for periods commencing on or after 1 January 2009.
- IAS 23 'Borrowing costs' — Revision. This revision eliminates the option to expense borrowing costs to the income statement as incurred and is effective for periods commencing on or after 1 January 2009. As the Group does not have any borrowings the adoption of this standard is not anticipated to have an impact.
- IAS 27 'Consolidated and separate financial statements' — Revision. The revision is part of the second phase of the business combinations project between the International Accounting Standards Board and the US Financial Accounting Standards Board. The main amendments relate to the accounting for minority interests and the loss of control of a subsidiary. The revision is effective for periods commencing on or after 1 July 2009. The directors do not believe the adoption of this revision will have a significant impact on the business.
- IAS 32 'Financial Instruments: Presentation' — Revision. The revision requires certain puttable financial instruments and certain financial instruments that impose an obligation on the entity to deliver a pro rata share of the net assets of the entity on liquidation to be classified as equity. The revision is effective for periods commencing on or after 1 January 2009. The directors do not believe the adoption of this revision will have a significant impact on the business.

2. Accounting policies continued

- IFRS 3 'Business combinations' — Revision. The revision is part of the second phase of the business combinations project between the International Accounting Standards Board and the US Financial Accounting Standards Board. The main changes include the scope, accounting for acquisition costs and post acquisition changes to contingent consideration, accounting for goodwill and accounting for business combinations achieved in stages. There is additional guidance on recognition and measurement of fair values and on determining what is part of the business combination transaction. There are also a number of changes to disclosure requirements. The revision is effective for periods commencing on or after 1 July 2009. The directors will consider the requirements of the revision on any future business acquisitions.
- Amendment to IFRS 2 — Share-based payment vesting conditions and cancellations. The guidance provides more information on the amendment to the guidance regarding cancellation, amendment to the definition of 'vest' and 'vesting conditions' and clarification of the accounting treatment of non-vesting conditions. An entity shall apply these amendments respectively in annual periods commencing on or after 1 January 2009. Earlier application is permitted as long as the entity discloses the fact.

3. Segment information

For management purposes, the Group is organised into two business units, advanced woundcare and wound closure and sealants. These divisions are the basis on which the Group reports its segment information.

Intersegment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments, and related revenue, corporate assets, head office expenses and income tax assets.

Business segments

The principal activities of the advanced woundcare business unit are the research, development, manufacture and distribution of novel, high performance polymers for use as wound dressings.

The principal activities of the wound closure and sealants business unit is the research, development, manufacture and distribution of medical adhesives and products for closing and sealing tissue.

Segment information about these businesses is presented below.

3. **Segment information** continued

2007	Advanced woundcare year ended 31 Dec 2007 £'000	Wound closure & sealants year ended 31 Dec 2007 £'000	Eliminations year ended 31 Dec 2007 £'000	Consolidated year ended 31 Dec 2007 £'000
Revenue				
External sales	12,799	4,057	—	16,856
Inter-segment sales	28	—	(28)	—
Total revenue	12,827	4,057	(28)	16,856
Inter-segment sales are charged at prevailing market prices.				
Result				
Segment result	1,363	715	—	2,078
Unallocated expenses				(426)
Profit from operations				1,652
Finance income				282
Finance costs				(29)
Profit before tax				1,905
Tax				331
Profit for the year				2,236

Other information	Advanced woundcare year ended 31 Dec 2007 £'000	Wound closure & sealants year ended 31 Dec 2007 £'000	Eliminations year ended 31 Dec 2007 £'000	Consolidated year ended 31 Dec 2007 £'000
Capital additions:				
Software intangibles	33	2	—	35
Research and development	187	107	—	294
Property, plant and equipment	335	167	—	502
Depreciation and amortisation	645	244	—	889
Balance sheet				
Assets				
Segment assets	7,084	4,377	—	11,461
Unallocated assets				7,783
Consolidated total assets				19,244
Liabilities				
Segment liabilities	2,213	1,061	—	3,274
Unallocated liabilities				224
Consolidated total liabilities				3,498

3. Segment information continued

2006	Advanced woundcare year ended 31 Dec 2006 £'000	Wound closure & sealants year ended 31 Dec 2006 £'000	Eliminations year ended 31 Dec 2006 £'000	Consolidated year ended 31 Dec 2006 £'000
Revenue				
External sales	11,445	2,877	—	14,322
Inter-segment sales	9	—	(9)	—
Total revenue	11,454	2,877	(9)	14,322

Inter-segment sales are charged at prevailing market prices.

Result				
Segment result	805	28	—	833
Unallocated expenses				(341)
Profit from operations				492
Finance income				149
Finance costs				(29)
Profit before tax				612
Tax				135
Profit for the year				747

2006 **Other information**	Advanced woundcare year ended 31 Dec 2006 £'000	Wound closure & sealants year ended 31 Dec 2006 £'000	Eliminations year ended 31 Dec 2006 £'000	Consolidated year ended 31 Dec 2006 £'000
Capital additions;				
Software intangibles	18	3	—	21
Research and development	24	45	—	69
Property, plant and equipment	243	45	—	288
Depreciation and amortisation	749	240	—	989
Balance sheet				
Assets				
Segment assets	7,090	4,594	—	11,684
Unallocated assets				4,339
Consolidated total assets				16,023
Liabilities				
Segment liabilities	2,067	820	—	2,887
Unallocated liabilities				87
Consolidated total liabilities				2,974

3. Segment information continued

Geographical segments

The advanced woundcare and wound closure and sealants segments operate mainly in the UK, with a sales office located in the USA. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services based upon location of the Group's customers:

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
United Kingdom	**5,731**	4,524
Europe excluding United Kingdom	**6,686**	5,600
United States of America	**4,217**	3,480
Rest of World	**222**	718
	16,856	14,322

All assets are classified as under the United Kingdom due to the immateriality of the carrying value of all assets held in the United States of America.

4. Other income

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Development fees	**512**	456
Other	**—**	24
	512	480

5. Profit from operations

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Profit from operations is arrived at after charging/(crediting):		
Profit/loss on sale of non-current assets	**(3)**	11
Depreciation of property, plant and equipment	**686**	804
Amortisation of:		
— acquired intellectual property rights	**168**	168
— software intangibles	**19**	13
— development costs	**16**	5
Operating lease rentals — plant and machinery	**90**	90
— land and buildings	**294**	294
Research and development costs expensed to the income statement	**784**	909
Net foreign exchange (gains)/losses	**(36)**	105

Auditor's remuneration

The analysis of auditor's remuneration is as follows:

Amounts payable to Baker Tilly UK Audit LLP and their associates (2006: Baker Tilly and their associates) in respect of both audit and non-audit services:

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Audit services		
— Statutory audit of parent and consolidated financial statements	**21**	10
— Statutory audit of subsidiary companies	**30**	28
Tax services		
— Compliance services	**6**	8
— Advisory services	**48**	4
Other services		
— Other costs	**6**	11
	111	61

6. Employees

The average monthly number of employees of the Group during the year, including executive directors, was as follows:

	Year ended 31 December 2007 Number	Year ended 31 December 2006 Number
Production	**117**	109
Research and development	**16**	15
Sales and marketing	**26**	26
Administration	**20**	20
	179	170

Sales and marketing includes 1 person (2006: 1) employed in the United States.

6. Employees continued

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Staff costs for all employees, including executive directors, consists of:		
Wages and salaries	**5,115**	4,734
Social Security costs	**491**	461
Pension costs	**200**	194
Share-based payments (see note 28)	**94**	60
	5,900	5,449

7. Directors' emoluments

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Remuneration for management services	**546**	503
Pension	**40**	38
Amounts paid to third parties	**98**	72
	684	613
Retirement benefits are accruing to the following number of directors under money purchase schemes	**3**	3

8. Key management

The key management of the Group comprises the executive directors of the Group together with senior members of the management team. Their aggregate compensation is shown below:

Key management compensation

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Salaries and short-term employee benefits	**821**	754
Pension	**54**	51
	875	805

Directors

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Salaries and short-term employee benefits	**546**	503
Pension	**40**	38
	586	541

8. Key management continued

Highest paid director

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Salaries and short-term employee benefits	**236**	230
Pension	**17**	16
	253	246

9. Finance income

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Bank interest	**274**	143
Rent deposit interest	**8**	6
	282	149

10. Finance costs

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Finance leases	**2**	1
Other loan interest	**27**	27
Bank interest	**—**	1
	29	29

11. Taxation

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
a) Analysis of credit for the year		
Current tax:		
UK corporation tax	—	17
Capital gains tax	(9)	—
Adjustment in respect of previous period	—	3
Deferred tax	340	115
Taxation	331	135

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
b) Factors affecting tax credit for the year		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%) as explained below:		
Profit before taxation	1,905	612
Profit multiplied by the standard rate of corporation tax in the UK of 30% (2006: 30%) as explained below:	572	184
Effects of:		
Expenses not deductible for tax purposes	207	19
Discounts allowed	—	(34)
Depreciation for period less than capital allowances	(68)	(33)
Profit on disposal of property, plant and equipment	(1)	—
Expensive leased cars disallowed costs	6	3
Trading losses carried forward	17	—
Trading losses utilised	(733)	(139)
Research and development relief	—	(17)
Capital gains tax	9	—
Adjustment in respect of previous period	—	(3)
Deferred taxation	(340)	(115)
Taxation	(331)	(135)

12. Retained profit for the financial year

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Profit dealt with in the accounts of the parent company	399	361
Profit retained by subsidiary undertakings	2,014	715
Consolidation adjustment	(445)	(329)
IFRS adjustment	268	—
	2,236	747

13. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	**2,236**	747

Number of shares	**Year ended 31 December 2007 £'000**	Year ended 31 December 2006 £'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**142,535**	142,083
Effect of dilutive potential ordinary shares: share options, deferred share bonus, LTIPs	**8,684**	4,031
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**151,219**	146,114

14. Acquired intellectual property rights, software intangibles and development costs

2007	**Acquired intellectual property rights £'000**	**Software intangibles £'000**	**Development costs £'000**
Cost			
At beginning of year	2,518	123	69
Additions	—	35	294
At end of year	2,518	158	363
Amortisation			
At beginning of year	784	94	5
Charged in the year	168	19	16
At end of year	952	113	21
Net book value			
At 31 December 2007	**1,566**	**45**	**342**
At 31 December 2006	1,734	29	64

14. Acquired intellectual property rights, software intangibles and development costs continued

2006	Acquired intellectual property rights £'000	Software intangibles £'000	Development costs £'000
Cost			
At beginning of year	2,518	102	—
Additions		21	69
At end of year	2,518	123	69
Amortisation			
At beginning of year	616	81	—
Charged in the year	168	13	5
At end of year	784	94	5
Net book value			
At 31 December 2006	**1,734**	**29**	**64**
At 31 December 2005	1,902	18	—

15. Property, plant and equipment

2007	**Freehold land, property and improvements £'000**	**Short leasehold improvements £'000**	**Plant and machinery £'000**	**Fixtures and fittings £'000**	**Motor vehicles £'000**	**Total £'000**
Cost						
At beginning of year	1,055	450	8,691	150	44	10,390
Additions	—	—	478	24	—	502
Disposals		—	(49)	—		(49)
At end of year	1,055	450	9,120	174	44	10,843
Depreciation						
At beginning of year	8	403	6,696	145	44	7,296
Provided for the year	4	22	657	3	—	686
Disposals	—	—	(49)	—		(49)
At end of year	12	425	7,304	148	44	7,933
Net book value						
At 31 December 2007	**1,043**	**25**	**1,816**	**26**	**—**	**2,910**
At 31 December 2006	1,047	47	1,995	5	—	3,094

15. Property, plant and equipment continued

2006	Freehold land, property and improvements £'000	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost						
At beginning of year	1,055	1,135	7,476	528	44	10,238
Transfers	—	(685)	1,063	(378)	—	—
Additions	—	—	288	—	—	288
Disposals	—	—	(136)	—	—	(136)
At end of year	1,055	450	8,691	150	44	10,390
Depreciation						
At beginning of year	4	653	5,458	451	44	6,610
Transfers	—	(269)	590	(321)	—	—
Provided for the year	4	19	765	15	—	803
Disposals	—	—	(117)	—	—	(117)
At end of year	8	403	6,696	145	44	7,296
Net book value						
At 31 December 2006	**1,047**	**47**	**1,995**	**5**	**—**	**3,094**
At 31 December 2005	805	482	2,039	77	—	3,403

The net book value of property, plant and equipment includes £nil of motor vehicles (2006: £nil) and £68k of plant and machinery (2006: £103k) held under finance leases. The related depreciation charge for the year was £nil for motor vehicles (2006: £nil) and £38k for plant and machinery (2006: £38k).

16. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Revaluation of building £'000	**Share-based payment £'000**	**Tax losses £'000**	**Total £'000**
At 1 January 2006	(74)	1	720	647
Charge to income	—	18	97	115
Charge to equity	—	66	—	66
At 31 December 2006	(74)	85	817	828
Charge to income	—	25	315	340
Charge to equity	—	253	—	253
As 31 December 2007	**(74)**	**363**	**1,132**	**1,421**

Maturity of the deferred tax asset is as follows:

	2007 £'000	2006 £'000
Less than one year	**467**	107
Greater than one year	**954**	721
	1,421	828

16. Deferred tax continued

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2007 £'000	2006 £'000
Deferred tax liabilities	**(74)**	(74)
Deferred tax assets	**1,495**	902
	1,421	828

At the balance sheet date, the Group has unused tax losses of £9.1 million (2006: £9.4 million) available for offset against future profits. A deferred tax asset has been recognised in respect of £1.4 million (2006: £0.8 million) of such losses.

17. Inventories

	2007 £'000	2006 £'000
Raw materials	**769**	652
Work in progress	**483**	500
Finished goods	**474**	634
	1,726	1,786

There is no material difference between the replacement cost of stock and the amount at which it is stated in the financial statements.

Included above are raw materials of £nil (2006: £nil) work in progress of £nil (2006: £nil) and finished goods of £nil (2006: £2k) carried at net realisable value.

	2007 £'000	2006 £'000
Total gross inventories	**2,136**	2,270
Inventory impairment	**(410)**	(484)
Net inventory	**1,726**	1,786

Inventory impairment:	2007 £'000	2006 £'000
At beginning of year	**(484)**	(322)
Income statement charge	**(194)**	(271)
Provision released	**38**	—
Provision utilised	**230**	109
At end of year	**(410)**	(484)

18. Trade and other receivables

	2007 £'000	2006 £'000
Due within one year		
Trade receivables	**2,601**	3,023
Other receivables	**393**	359
Prepayments and accrued income	**510**	337
	3,504	3,719

Trade and other receivables

	2007 £'000	2006 £'000
Amount receivable for the sale of goods	**3,515**	3,763
Provision for impairment	**(11)**	(44)
	3,504	3,719

The average credit period taken on sales of goods is 52 days.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits are reviewed on an ongoing basis and reflect current payment history.

Ageing of overdue but not impaired receivables	2007 £'000	2006 £'000
31–60 days overdue	**242**	119
61–90 days overdue	**40**	277
Over 91 days overdue	**—**	—
Total	**282**	396

Movement in provision for impairment	2007 £'000	2006 £'000
Balance at the beginning of the year	**44**	41
Impairment losses recognised	**8**	3
Amounts written off as uncollectable	**(41)**	—
Amounts recovered during the year	**—**	—
Balance at the end of the year	**11**	44

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the Group's large and unrelated customer base. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for impairments.

18. Trade and other receivables continued

Analysis of customers

31 December 2007	**Revenue £'000**	**% of total revenue %**
Customers accounting for more than 10% of revenue		
— Customer 1	**2,669**	**15.8**
— Customer 2	**1,862**	**11.0**

31 December 2006	Revenue £'000	% of total revenue %
Customers accounting for more than 10% of revenue		
— Customer 1	2,258	15.8
— Customer 2	1,487	10.4
— Customer 3	1,838	12.8

Ageing of impaired trade receivables	**2007 £'000**	2006 £'000
31–60 days overdue	**—**	—
61–90 days overdue	**—**	—
Over 90 days overdue	**11**	44
Total	**11**	44

19. Trade and other payables

	2007 £'000	2006 £'000
Trade payables	**1,466**	1,519
Other payables	**230**	78
Accruals and deferred income	**1,213**	818
	2,909	2,415

20. Current financial liabilities

	2007	2006
	£'000	£'000
Other loans	15	14
	15	14

21. Non-current financial liabilities

	2007	2006
	£'000	£'000
Obligations under finance leases	14	1
Other loans	279	295
	293	296

22. Analysis of borrowings

The maturity by currency of finance leases and other loans is given below:

Other loans

See note 23.

The loan is secured by a fixed charge on the freehold property. It is repayable in monthly instalments and interest is payable at 8½% fixed rate.

23. Financial instruments

All financial instruments held by the Group, as detailed in this note, are classified as "Loans and Receivables" (trade and other receivables, cash and cash equivalents), "Held to maturity investments" (short-term investments) and "Financial Liabilities Measured at Amortised Cost" (trade and other payables) under IAS 39 'Financial Instruments: Recognition and Measurement' and finance leases under IAS 17 'Leases'.

Pages 16 and 17 of the Financial Review provide an explanation of the financial risks faced by the Group and the objectives and policies for managing those risks. The information below deals with the financial assets and liabilities.

23. Financial instruments continued

(a) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, of which other loans and finance lease obligations are at fixed rates and denominated in sterling, is as follows:

2007	**On demand or within one year £'000**	**Between one and two years £'000**	**Between two and five years £'000**	**Five years or more £'000**	**Total medium/ long-term £'000**	**Total financial liabilities £'000**	**Interest rate %**
Other loans	**15**	**17**	**59**	**203**	**279**	**294**	**8.5**
Finance lease creditors	**5**	**5**	**9**	**—**	**14**	**19**	**13.7**
At 31 December 2007	**20**	**22**	**68**	**203**	**293**	**313**	**—**

2006	On demand or within one year £'000	Between one and two years £'000	Between two and five years £'000	Five years or more £'000	Total medium/ long-term £'000	Total financial liabilities £'000	Interest rate %
Other loans	14	15	55	225	295	309	8.5
Finance lease creditors	5	1	—	—	1	6	15.5
At 31 December 2006	19	16	55	225	296	315	—

	2007		2006	
	Fixed rate financial liabilities	**Financial liabilities on which no interest is paid**	Fixed rate financial liabilities	Financial liabilities on which no interest is paid
	Weighted average period for which rate is fixed Years	**Weighted average period until maturity Years**	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Other loans	**12**	**—**	13	—
Finance lease creditors	**4**	**—**	1	—

(b) Interest rate and currency of financial assets

The currency and interest rate profile of the financial assets of the Group is as follows:

Investments and cash and cash equivalents

	Total £'000	**Floating £'000**	**Fixed £'000**	**Non-interest bearing £'000**	**Fixed rate weighted average interest rate %**
Currency					
Sterling	7,425	642	6,783	—	6.1
US dollar	74	—	—	74	—
Euro	31	—	—	31	—
At 31 December 2007	**7,530**	**642**	**6,783**	**105**	**6.1**

23. Financial instruments continued

	Total £'000	Floating £'000	Fixed £'000	Non-interest bearing £'000	Fixed rate weighted average interest rate %
Currency					
Sterling	4,422	472	3,950	—	5.0
US dollar	30	—	—	30	—
Euro	100	—	—	100	—
At 31 December 2006	4,552	472	3,950	130	5.0

The floating rate financial assets comprise bank deposits bearing interest at commercial rates.

Receivables

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

	2007 £'000	2006 £'000
Sterling	**2,557**	2,329
Euro	**76**	113
US dollar	**871**	1,277
	3,504	3,719

Wherever possible, sales contracts with customers include clauses which provide for interest to be charged on overdue receivables. In practice, interest is not charged unless the Group is involved in litigation to collect an outstanding receivable.

The financial assets all mature within one year.

(c) Currency exposures

At 31 December 2007 the Group had unhedged US dollar currency exposures of £nil (2006: £nil) and unhedged euro currency exposures of £33k (2006: £175k)

Risk Sensitivity

The majority of the Group's revenues are in sterling. However, increasingly, the Group has an exposure to the US dollar as an increasing amount of revenue is generated by sales to the US. In 2007, the Group had revenue of £2.4 million denominated in US dollars, if the dollar had depreciated by a further 10% on average over the period, revenue and equity would have been negatively impacted by £0.2 million and gross margin reduced by 1%. It is the policy of the Group to enter into forward foreign exchange contracts to cover the anticipated sales out to twelve months within 50% to 80% of the exposure generated.

If all material prices increased by 5% and the Group was unable to pass on the increase, the Group estimates that this would have had a negative impact of £0.2 million and gross margin would be reduced by 1%.

The Group is able to mitigate its exposure to the euro by sourcing raw materials from Europe. Consequently the Group's sensitivity to the euro is not material.

24. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	Year ended 31 December 2007 £'000	Year ended 31 December 2006 £'000	**Year ended 31 December 2007 £'000**	Year ended 31 December 2006 £'000
Amounts payable under finance leases:				
Within one year	**5**	5	**5**	5
In the second to fifth years	**14**	1	**14**	1
Inclusive				
After five years				
Less: future finance charges	**—**	—		
Present value of lease obligations	**19**	6	**19**	6
Less: Amount due for settlement within				
12 months (shown under current				
financial liabilities)	**5**	5	**5**	5
Amount due for settlement after 12 months	**14**	1	**14**	1

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3 years. For the year ended 31 December 2007, the average effective borrowing rate was 13.7% (2006: 15.5%). Interest rates are fixed at the contract date. All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates their carrying amount.

25. Fair value of financial assets and liabilities

The comparison of book and fair value of all the Group's financial assets and liabilities at the year end is set out below:

	2007		2006	
	Book value £'000	**Fair value £'000**	Book value £'000	Fair value £'000
Investments	**6,654**	**6,654**	3,950	3,950
Cash and cash equivalents	**876**	**854**	602	602
Trade and other receivables	**3,504**	**3,508**	3,719	3,719
Trade and other payables	**2,909**	**2,898**	2,415	2,415
Current financial liabilities	**15**	**15**	14	14
Non-current financial liabilities	**279**	**279**	295	295

The directors consider that the fair values of the Group's financial instruments do not differ significantly from their book values.

26. Foreign exchange rates

	Average rate		Closing rate		Percentage change	
	2007	2006	**2007**	2006	Average %	Closing %
Currency						
US dollar	**2.000**	1.843	**1.990**	1.957	8.5	1.7
Euro	**1.462**	1.467	**1.362**	1.484	(0.3)	(8.2)

27. Share capital

Number of ordinary shares of 5p each

	Authorised £'000	Allotted, called up and fully paid £'000
At 1 January 2006	206,447	142,083
At 31 December 2006	206,447	142,083
New issues in the year	—	683
Share options exercised	—	375
At 31 December 2007	**206,447**	**143,141**

The following share movements occurred during the year:

During the year, employees exercised share options of 375k shares at a range of option prices from 9p to 12p. On 12 April 2007 683k shares were issued under the Deferred Share Bonus Plan at the nominal value of 5p per share. 249k (£13k) of shares are retained by the Trust to meet the matching requirements of the Plan.

Number of deferred shares of 5p each

	Authorised £'000	Allotted, called up and fully paid £'000
At 1 January 2006	93,553	93,553
At 31 December 2006	93,553	93,553
Shares cancellation — capital reconstruction	(93,553)	(93,553)
At 31 December 2007	**—**	**—**

The following share movements occurred during the year:

Value of ordinary shares of 5p each

	Authorised £'000	Allotted, called up and fully paid £'000
At 1 January 2006	10,322	7,104
At 31 December 2006	10,322	7,104
New issues in the year	—	34
Share options exercised	—	19
At 31 December 2007	**10,322**	**7,157**

Value of deferred shares of 5p each

	Authorised £'000	Allotted, called up and fully paid £'000
At 1 January 2006	4,678	4,678
At 31 December 2006	4,678	4,678
Share cancellation — capital reconstruction	(4,678)	(4,678)
At 31 December 2007	**—**	**—**

28. Share-based payment transactions

The charge for share-based payments transaction under IFRS 2 arises across the following schemes:

	2007	2006
	£'000	£'000
Unapproved Executive Share Option Scheme	**1**	2
Enterprise Management Incentive Scheme	**21**	18
Long Term Incentive Plan	**54**	26
Deferred Share Bonus Scheme	**18**	—
	94	42

Unapproved Executive Share Option Scheme and Enterprise Management Incentive Scheme.

The fair value of the executive options is calculated based on a Black–Scholes Merton model assuming the inputs below:

Grant Date	14/4/03	7/10/03	7/4/04	15/7/04	16/7/04	16/9/04
Share price at grant date	8.75p	11.5p	10p	9p	9p	9p
Exercise price	8.75p	11.5p	10p	9p	9p	9p
Expected life	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk-free rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Expected volatility	30%	30%	30%	30%	30%	30%
Expected dividend yield	0%	0%	0%	0%	0%	0%
Fair value of options	1p	2p	1p	1p	1p	1p

Grant Date	21/3/05	12/9/05	15/3/06	6/4/06	21/9/06	12/04/07	26/09/07
Share price at grant date	10.2p	9.25p	10.75p	10.75p	11.25p	16.75p	26.75p
Exercise price	10.2p	9.25p	10.75p	10.75p	11.25p	16.75p	26.75p
Expected life	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs	3.5 yrs
Contractual life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk-free rate	4.5%	4.5%	4.5%	4.5%	4.5%	5.0%	5.0%
Expected volatility	30%	30%	30%	30%	30%	27%	27%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%
Fair value of options	1p	2p	1p	1p	1p	2p	4p

Under the terms of the company's Share Option Schemes, approved by shareholders in 1999 and amended in 2001 and 2002, the Board may offer options to purchase ordinary shares in the Company to all employees of the Company at the market price on a date to be determined prior to the date of the offer. Since 2005, individuals who are entitled to awards under the LTIP are no longer eligible to receive options under the Company's Share Option Schemes.

Performance targets are assessed over a three year period from the date of grant. Once options have vested they can be exercised during the period up to 10 years from the date of grant.

28. Share-based payment transactions continued

Shares to be issued

Options have been granted over the following number of ordinary shares which were outstanding at 31 December 2007.

Date of grant	Option price (p)	Weighted average price at exercise (p)	No. of options as at 1 January 2007	Remaining life 1 January 2007	Issued	Lapsed	Exercised	No. of options as at 31 December 2007	Remaining life 31 December 2007
Unapproved Executive Share Option Scheme									
15.07.04	9.00	—	234,722	7.5	—	—	—	**234,722**	**6.5**
12.09.05	9.25	—	100,000	8.7	—	—	—	**100,000**	**7.7**
12.04.07	16.75	—	—	—	50,000	—	—	**50,000**	**9.3**
Enterprise Management Incentive Scheme									
14.04.03	8.75	17.00	90,000	6.3	—	—	60,000	**30,000**	**5.3**
07.10.03	11.50	18.96	80,000	6.8	—	—	65,000	**15,000**	**5.8**
07.04.04	10.00	23.36	76,000	7.3	—	15,000	45,000	**16,000**	**6.3**
15.07.04	9.00	26.67	1,117,419	7.5	—	2,500	203,663	**911,256**	**6.5**
16.07.04	9.00	—	7,324	7.5	—	—	—	**7,324**	**6.5**
16.09.04	9.00	24.50	42,000	7.7	—	10,000	1,000	**31,000**	**6.7**
21.03.05	10.20	—	16,000	8.2	—	—	—	**16,000**	**7.2**
12.09.05	09.25	—	492,000	8.7	—	1,000	—	**491,000**	**7.7**
15.03.06	10.75	—	1,615,000	9.2	—	145,000	—	**1,470,000**	**8.2**
06.04.06	10.75	—	150,000	9.3	—	—	—	**150,000**	**8.3**
21.09.06	11.25	—	32,000	9.7	—	10,000	—	**22,000**	**8.7**
12.04.07	16.75	—	—	—	1,605,182	—	—	**1,605,182**	**9.3**
26.09.07	26.75		—	—	18,000	—	—	**18,000**	**9.7**
			4,052,465		1,673,182	183,500	374,663	**5,167,484**	

The weighted average remaining contractual life of the options outstanding at 31 December 2007 is 8.1 years (2006: 8.4 years).

	2007		2006	
	Number of options	**Weighted average exercise price (p)**	Number of options	Weighted average exercise price (p)
Outstanding at beginning of the period	**4,052,465**	**9.88**	2,274590	9.19
Granted	**1,673,182**	**16.86**	1,997,000	10.76
Exercised	**(374,663)**	**9.51**	—	—
Forfeited	**(183,500)**	**10.59**	(219,125)	10.61
Expired	**—**	**—**	—	—
Outstanding at end of the period	**5,167,484**	**12.14**	4,052,465	9.88
Exercisable at end of period	**1,245,302**	**9.04**	170,000	10.04

28. Share-based payment transactions continued

Long Term Incentive Plan (LTIP)

The fair value of the executive options is calculated based on a Black–Scholes Merton model assuming the inputs below:

Grant date	12/10/05	12/04/07
Share price at grant date	8.75p	16.75p
Exercise price	0p	0p
Expected life	3.5 yrs	3.5 yrs
Contractual life	10 yrs	10 yrs
Risk-free rate	4.5%	5.0%
Expected volatility	30%	27%
Expected dividend yield	0%	0%
Probability of performance conditions	40.4%	42.5%
Fair value of option	2p	4p

The entitlement to shares under the LTIP is subject to achieving the performance conditions referred to on pages 24 to 27. The number shown are maximum entitlements and the actual number of shares (if any) will depend on these performance conditions being achieved.

Date of grant	**Market price at date of grant (p)**	**Number of LTIPs at 1 January 2007**	**Remaining life 1 January 2007**	**Issued**	**Lapsed**	**Number of LTIPs 31 December 2007**	**Remaining life 31 December 2007**
Long Term Incentive Plan							
12.10.05	8.75	3,713,744	8.8	—	—	**3,713,744**	**7.8**
12.04.07	16.75	—	—	2,710,000	—	**2,710,000**	**9.3**
		3,713,744		2,710,000		**6,423,744**	

The weighted average remaining contractual life of the LTIPs outstanding at 31 December 2007 is 8.4 years (2006: 8.8 years).

	2007 Number of options	2006 Number of options
Outstanding at beginning of the period	**3,713,744**	3,713,744
Granted	**2,710,000**	—
Exercised	**—**	—
Forfeited	**—**	—
Expired	**—**	—
Outstanding at end of the period	**6,423,744**	3,713,744
Exercisable at end of period	**—**	—

The exercise price of these options is nil.

28. Share-based payment transactions continued

Deferred Share Bonus

The fair value of the executive options is calculated based on a Black–Scholes Merton model assuming the inputs below:

Grant date	12/04/07	12/04/07
Share price at grant date	18.25p	18.25p
Exercise price	0p	0p
Expected life	3.5 yrs	3.5 yrs
Contractual life	10 yrs	10 yrs
Risk-free rate	5.0%	5.0%
Expected volatility	27%	27%
Expected dividend yield	0%	0%
Probability of performance conditions	100%	66.7%
Fair value of option	14p	9p

The entitlement to shares under the DSB is subject to a 3 year holding period. Additionally, for certain levels of share matching, additional performance conditions also need to be achieved. The actual number of shares that will be matched will depend on these performance conditions. Details on the DSB are given on pages 24 to 27.

Date of grant	**Market price at date of grant (p)**	**Number of DSB matching shares at 1 January 2007**	**Remaining life 1 January 2007**	**Issued**	**Lapsed**	**Number of DSB matching shares at 31 December 2007**	**Remaining life 31 December 2007**
Deferred Share Bonus Plan							
12.04.07	18.25	—	—	508,242	—	**508,242**	**9.3**
12.04.07	18.25	—	—	164,383	—	**164,383**	**9.3**
				672,625		**672,625**	

The weighted average remaining contractual life of the DSB outstanding at 31 December 2007 is 9.3 years.

	2007 Number of options	2006 Number of options
Outstanding at beginning of the period	**—**	—
Granted	**672,625**	—
Exercised	**—**	—
Forfeited	**—**	—
Expired	**—**	—
Outstanding at end of the period	**672,625**	—
Exercisable at end of period	**—**	—

The exercise price of the matched shares is nil.

29. Commitments under operating leases

As at 31 December 2007, the Group had outstanding commitments under operating leases, which fall due as follows:

	2007		2006	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
Amounts payable under operating leases:				
Within one year	**290**	**80**	290	80
In two to five years	**394**	**71**	684	99
	684	**151**	974	179

Operating leases relate to buildings and vehicles. For the buildings, rental payments are fixed for one year and are reviewed every five years. Vehicle leases are fixed for a period of three years.

30. Transition to IFRS

To explain the impact of the transition, reconciliations have been included that show the changes made to the statements previously reported under UK GAAP. The following unaudited reconciliations are included:

- Reconciliation of Group balance sheet at 31 December 2005 from UK GAAP to IFRS.
- Reconciliation of Group income statement for the 12 months ended 31 December 2006 from UK GAAP to IFRS.
- Reconciliation of Group balance sheet at 31 December 2006 from UK GAAP to IFRS.

The transition from UK GAAP to IFRS does not affect the cash flows generated by the Group. The IFRS cash flow statement is in a different format from that required under UK GAAP. The reconciling items between UK GAAP format and IFRS format have no net impact on the cash flows generated and accordingly reconciliations have not been presented.

The Group's date of transition is 1 January 2006. The accounting policies used for IFRS are set out in Note 2.

Descriptions of the reconciling items between UK GAAP and IFRS are listed below. The amounts of the reconciling items are detailed in the tables set out beneath each of the reconciliations.

Intangible assets

On transition the Group has reclassified separately identifiable computer software assets from tangible to intangible asset following the provisions of IAS 38.

Expenditure on development activities resulting in new or substantially improved products which will generate future economic benefits is now capitalised and amortised over the products' useful life. Previously, under UK GAAP, all such development costs were expensed.

Property, plant and equipment

The Group has elected to use the fair value as the deemed cost for land and buildings at the date of transition to IFRS. The revaluation increased arising on the revaluation is credited to a revaluation reserve.

Deferred tax

IAS 12 takes a balance sheet approach to deferred tax whereby deferred tax is recognised in the balance sheet by applying the appropriate tax rate to the temporary differences arising between the carrying value of assets and liabilities and their tax base. IAS 12 does not permit discounting of deferred tax balances. The Group has recognised a deferred tax liability resulting from the revaluation of property, plant and equipment which has been debited to the revaluation reserve. It has also increased the value of the deferred tax asset from unwinding the discount factors on the deferred tax asset recognised under UK GAAP.

The Group, on transition to IFRS, has recognised a deferred tax asset arising on the difference between market value and exercise price of unexercised employee options and LTIPs.

30. Transition to IFRS

Reconciliation of consolidated balance sheet

at 31 December 2005 from UK GAAP to IFRS

	Note	UK GAAP 31 Dec 2005 restated in IFRS format £'000	Reclassification 31 Dec 2005 £'000	IFRS adjustments 31 Dec 2005 £'000	IFRS 31 Dec 2005 £'000
Assets					
Non-current assets					
Acquired intellectual property rights		1,902		—	1,902
Software intangibles	1	—		14	14
Development costs		—		—	—
Property, plant and equipment	2,3	3,403		233	3,636
Deferred tax assets	4,5,8	547		100	647
Trade and other receivables		200		—	200
		6,052		347	6,399
Current assets					
Inventories		1,669		—	1,669
Trade and other receivables		3,230		—	3,230
Tax receivable		17		—	17
Investments		—	2,986	—	2,986
Cash and cash equivalents		3,388	(2,986)	—	402
		8,304	—	—	8,304
Total assets		14,356		347	14,703
Liabilities					
Current liabilities					
Trade and other payables		1,945		—	1,945
Other taxes payable		230		—	230
Financial liabilities		13		—	13
Obligations under finance leases		5		—	5
		2,193		—	2,193
Non-current liabilities					
Financial liabilities		309		—	309
Obligations under finance leases		7		—	7
		316		—	316
Total liabilities		2,509		—	2,509
Net assets		11,847		347	12,194
Equity					
Share capital		11,782		—	11,782
Share-based payments' reserve	6	—		18	18
Share-based payments' deferred tax	8				
Reserve		—		1	1
Share premium		37,978		—	37,978
Other reserve		1,531		—	1,531
Retained earnings	3,4,5,7,8	(39,444)		328	(39,116)
Equity attributable to equity holders of the parent		11,847		347	12,194

30. Transition to IFRS continued

Reconciliation of Group balance sheet

At December 2005 from UK GAAP to IFRS

		Note	Non-current assets £'000	Shareholders' equity £'000
Conversion effects comprise:				
IAS 38 —	Reclassification of software from property, plant and equipment to intangible assets	1	14	
IAS 38 —	Reclassification of software from property, plant and equipment to intangible assets	2	(14)	
IFRS 1 —	Revaluation of land and buildings to fair value at date of transition at deemed cost	3	247	247
IAS 12 —	Deferred tax — revaluation of land and buildings	4	(74)	(74)
IAS 12 —	Reversal of discount on deferred tax	5	168	168
IFRS 2 —	Share-based payments reserve	6		18
IFRS 2 —	Profit and loss	7		(18)
IAS 12 —	Deferred tax — share-based payments	8	6	1
	Profit and loss			5
Net movement			347	347

30. Transition to IFRS continued

Reconciliation of Group income statement

For 12 months ended 31 December 2006 from UK GAAP to IFRS

	Note	UK GAAP 31 Dec 2006 £'000	IFRS adjustments 31 Dec 2006 £'000	IFRS 31 Dec 2006 £'000
Revenue		14,322	—	14,322
Cost of sales	1	(8,279)	(1)	(8,280)
Gross profit		6,043	(1)	6,042
Distribution costs		(107)	—	(107)
Administration costs	2,3,7	(6,011)	99	(5,912)
Loss on disposal of property, plant and equipment		(11)	—	(11)
Other income		480	—	480
Profit from operations		394	98	492
Finance income	4	204	(55)	149
Finance costs		(29)	—	(29)
Profit before taxation		569	43	612
Income tax	5,6	167	(32)	135
Profit for the year attributable to equity holders of the parent		736	11	747
Earnings per share				
Basic		0.52p		0.52p
Diluted		0.50p		0.50p

Conversion effects comprise:		**Note**	
IFRS 1 —	Depreciation of revaluation of land and buildings	1	(1)
IAS 38 —	Expenditure on development activities and patents which have met the criteria to be capitalised less amortisation	2	64
IFRS 2 —	Reversal of share based payments included in year ended 31 December 2005	3	18
	Adjustment in respect of exchange differences	7	17
Operating profit			98
IAS 12 —	Reversal of unwinding of discount on deferred tax asset	4	(55)
IAS 12 —	Reversal of discount on deferred tax	5	(45)
IAS 12 —	Deferred tax on share-based payments	6	13
Profit attributable to equity shareholders			11

30. Transition to IFRS continued

Reconciliation of Group balance sheet

At 31 December 2006 from UK GAAP to IFRS

	Note	UK GAAP 31 Dec 2006 restated in IFRS format £'000	Reclassification 31 Dec 2006 £'000	IFRS adjustments 31 Dec 2006 £'000	IFRS 31 Dec 2006 £'000
Assets					
Non-current assets					
Acquired intellectual property rights		1,734		—	1,734
Software intangibles	1	—		29	29
Development costs	3	—		64	64
Property, plant and equipment	2,4	2,877		217	3,094
Deferred tax assets	5,6,7	749		79	828
Trade and other receivables		208	(8)	—	200
		5,568	(8)	389	5,949
Current assets					
Inventories		1,786		—	1,786
Trade and other receivables		3,711	8	—	3,719
Tax receivable		17		—	17
Investments		—	3,950	—	3,950
Cash and cash equivalents		4,552	(3,950)	—	602
		10,066	8	—	10,074
Total assets		15,634	—	389	16,023
Liabilities					
Current liabilities					
Trade and other payables		2,415		—	2,415
Other taxes payable		244			244
Financial liabilities		14			14
Obligations under finance leases		5			5
		2,678		—	2,678
Non-current liabilities					
Financial liabilities		295		—	295
Obligations under finance leases		1		—	1
		296		—	296
Total liabilities		2,974		—	2,974
Net assets		12,660		389	13,049
Equity					
Share capital		11,782		—	11,782
Share-based payments reserve		60		—	60
Share-based payments deferred tax reserve	7	—		67	67
Share premium		37,978		—	37,978
Other reserve		1,531		—	1,531
Retained earnings	3,4,5,6,7	(38,691)		322	(38,369)
Equity attributable to equity holders of the parent		12,660		389	13,049

30. Transition to IFRS continued

Reconciliation of Group balance sheet

At 31 December 2006 from UK GAAP to IFRS

		Note	Non-current assets £'000	Shareholders' equity £'000
Conversion effects comprise:				
IAS 38 —	Reclassification of software from property, plant and equipment to intangible assets	1	29	
IAS 38 —	Reclassification of software from property, plant and equipment to intangible assets	2	(29)	
IAS 38 —	Recognition of development activities less amortisation	3	64	64
IFRS 1 —	Revaluation of land and buildings to fair value at date of transition less depreciation — deemed cost	4	246	246
IAS 12 —	Deferred tax — revaluation of land and buildings	5	(74)	(74)
IAS 12 —	Reversal of discount on deferred tax	6	68	68
IAS 12 —	Deferred tax — share-based payments	7	85	67
	Profit and loss			18
Net movement			389	389

company balance sheet

At 31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Investments	32	**6,454**	8,904
		6,454	8,904
Current assets			
Debtors — due within one year	33	**277**	93
— due after more than one year	33	**200**	200
Cash at bank and in hand		**6,942**	3,961
		7,419	4,254
Creditors: amounts falling due within one year	34	**(195)**	(87)
Net current assets		**7,224**	4,167
		13,678	13,071
Capital and reserves			
Called up share capital	35	**7,157**	11,782
Share-based payments reserve		**154**	60
Investment in own shares		**(13)**	—
Share premium account		**17**	37,978
Profit and loss account		**6,363**	(36,749)
Equity shareholders' funds		**13,678**	13,071

The financial statements on pages 73 to 76 were approved by the Board of Directors and authorised for issue on 18 April 2008 and were signed on its behalf by:

Dr D W Evans
Chief Executive Officer
18 April 2008

31. Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and under the historical cost convention. The company has taken advantage of the exemption from presenting its own profit and loss account. A summary of the more important company accounting policies, which have been applied consistently, is set out below.

Merger accounting

Where merger accounting is used, the investment is recorded in the company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

Investments

Investments are stated at cost less provision for any loss in value considered permanent.

Liquid resources

Liquid resources comprise variable term deposits that are accessible with less than 12 months' notice.

Cash flow statement

The company is exempt under FRS 1 (revised) from preparing the cash flow statement as its cash flows are included in the consolidated cash flow statement.

32. Fixed asset investments

	Investments	Loans	Capital contributions	Total
Cost				
1 January 2007	1,670	45,006	—	46,676
Additions	—	—	154	154
Movement in loans	—	(3,147)	—	(3,147)
31 December 2007	1,670	41,859	154	43,683
Impairment				
1 January 2007	1,670	36,102	—	37,772
Reversal of provision	—	(543)	—	(543)
31 December 2007	1,670	35,559	—	37,229
Net book value				
31 December 2007	**—**	**6,300**	**154**	**6,454**
31 December 2006	—	8,904	—	8,904

Shares in Group undertakings and loans to Group undertakings have been written down to recognise losses in subsidiary companies.

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated accounts.

Name	Country of Operation	Proportion of voting rights and ordinary share capital held	Nature of business
Advanced Medical Solutions Limited	England	100%	Development and manufacture of medical products
Advanced Medical Solutions (UK) Limited	England	100%	Holding Company
Advanced Medical Solutions Trustee Company Limited	England	100%	Trustee Company
MedLogic Global Limited	England	100%	Development and manufacture of medical products
Advanced Healthcare Systems Limited	England	100%*	Dormant
Advanced Medical Solutions Group Inc.	USA	100%†	Holding Company
Advanced Medical Solutions (Delaware) Inc.	USA	100%†	Dormant
Advanced Medical Solutions (US) Inc	USA	100%§	Development and manufacture of medical products
Advanced Medical Solutions Inc	USA	100%†	Dormant
MedLogic Global Holdings Limited	England	100%¶	Holding Company
Innovative Technologies Limited	England	100%‡	Dormant

* Held indirectly through Advanced Medical Solutions Limited.
‡ Held indirectly through MedLogic Global Holdings Limited.
† Held indirectly through Advanced Medical Solutions (UK) Limited.
§ Held indirectly through Advanced Medical Solutions Group Inc.
¶ Held indirectly through MedLogic Global Limited.

The above table reflects the situation at the year end.

33. Debtors

	2007 £'000	2006 £'000
Due within one year		
Prepayments and accrued income	**277**	93
	277	93
Due after more than one year		
Other debtors — leasehold rental deposit	**200**	200

34. Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Trade creditors	**77**	14
Accruals and deferred income	**109**	73
Tax payable	**9**	—
	195	87

35. Share capital

Details on the share capital of the company are provided in note 27 on page 62 in the notes to the Group's accounts.

36. Profit for the financial year

	2007 £'000	2006 £'000
Profit dealt with in the accounts of the parent company	**399**	361

The Company has taken advantage of section 230(4) of the Companies Act 1985 not to publish its own profit and loss account.

37. Profit and loss account

	2007 £'000
As at 1 January 2007	**(36,749)**
Cancellation of deferred shares	**4,678**
Cancellation of share premium account	**37,978**
Surpus on EBT	**57**
Profit for the financial year	**399**
As at 31 December 2007	**6,363**

five year summary

	IFRS 2007 £m	IFRS 2006 £m	IFRS 2005 £m	UK GAAP 2004 £m	UK GAAP 2003 £m
Consolidated income statement					
Revenue	**16.9**	14.3	12.9	11.0	9.0
Profit from operations	**1.7**	0.5	(0)	(1.1)	(2.4)
Finance income	**0.3**	0.1	0.1	0.1	0.1
Profit attributable to equity holders of the parent	**2.2**	0.7	0.3	(0.4)	(2.1)
Basic earnings/(loss) per share	**1.6p**	0.5p	0.2p	(0.3)p	(1.5)p
Weighted average number of shares in issue	**142.5**	142.1	142.1	142.1	142.1
Consolidated balance sheet					
Net assets employed					
Non-current assets	**6.5**	6.0	6.4	5.8	6.6
Current assets	**12.7**	10.0	8.3	6.2	5.7
Total liabilities	**(3.5)**	(3.0)	(2.5)	(0.4)	(0.3)
Net assets	**15.7**	13.0	12.2	11.6	12.0
Shareholders' equity					
Share capital and investment in own shares	**7.1**	11.8	11.8	11.8	11.8
Share-based payments reserve	**0.2**	—			
Share-based payments deferred tax reserve	**0.3**	0.1			
Share premium account	**—**	38.0	38.0	38.0	38.0
Other reserve	**1.5**	1.5	1.5	1.5	1.5
Retained equity	**6.6**	(38.4)	(39.1)	(39.7)	(39.3)
Equity attributable to equity holders of the parent	**15.7**	13.0	12.2	11.6	12.0

notice of meeting

Notice is hereby given that the fourteenth Annual General Meeting of the company will be held at 11.00 am on 3 June 2008 at Macdonald Portal Hotel, Cobblers Cross Lane, Tarporley, Cheshire, CW6 0DJ.

As ordinary business:

1. To receive the report of the directors and the financial statements of the company for the year ended 31 December 2007 (together with the report of the auditors thereon).
2. To reappoint Baker Tilly as auditor and to authorise the directors to fix their remuneration.
3. To re-elect Geoffrey Vernon (who retires by rotation in accordance with the Articles of Association), as a director of the company.

As special business:

To consider and, if thought fit, to pass Resolution 4, which will be proposed as an Ordinary Resolution, and Resolution 5, which will be proposed as a Special Resolution.

4. That the directors be authorised:
    i) to make such amendments to the rules of each of The Advanced Medical Solutions Group plc Unapproved Executive Share Option Scheme, The Advanced Medical Solutions Long Term Incentive Plan and The Advanced Medical Solutions Group plc 2006 Deferred Share Bonus (Unapproved) Plan (together, the "Unapproved Plans") as are marked on the copies of the rules of the Unapproved Plans produced to the meeting and initialled by the Chairman for the purposes of identification only and which are described in the Report of the Directors on pages 20 to 23; and
    ii) subject to the approval of HM Revenue & Customs ("HMRC"), to make the amendment to the rules of The Advanced Medical Solutions Group plc 2006 Deferred Share Bonus (Approved) Plan (the "Approved DSB") as marked on the copy of the rules of the Approved DSB produced to the meeting and initialled by the Chairman for the purposes of identification only and which is described in the report of the directors on pages 20 to 23 and to make such further amendment to the rules of the Approved DSB to take account of any comments of HMRC and as may be necessary to maintain the approved status of the Approved DSB, provided that the amendment shall not have effect until HMRC has confirmed that it does not affect the approved status of the Approved DSB.
5. That the directors be empowered pursuant to and in accordance with Section 95 of the Companies Act 1985 ("Act") to allot equity securities pursuant to the authority conferred by a special resolution of the company dated 6 June 2007 as if Section 89(1) of the Act did not (in so far as it would otherwise do) apply to any such allotment, provided that:
    i) this power shall expire on the date fifteen months after the date of passing of this resolution or at the conclusion of the next Annual General Meeting of the company, whichever is the earlier, save that the company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired and provided further that such allotments would have fallen within the limit hereinafter mentioned if made before such expiry;
    ii) equity securities allotted otherwise than in connection with a Pro Rata Offer (as defined below) or a scrip dividend alternative offered in accordance with Article 151 of the company's Articles of Association or pursuant to the terms of any share option scheme for employees approved by the members in general meeting shall not exceed an aggregate nominal value of £710,412.68 and for this purpose an issue of securities convertible into ordinary shares shall be deemed to be an allotment of the number of shares which would be required to satisfy the conversion rights attached to those securities in full at the initial conversion price provided for in the terms and conditions of the issue.

In this resolution:

(a) words and expressions shall be construed in accordance with Part IV of the Act; and

(b) the expression 'Pro Rata Offer' means an offer of equity securities open for acceptance for a period fixed by the directors to holders of ordinary shares on the register on a fixed record date in proportion (or as nearly as may be) to their then holdings of such ordinary shares (but subject to such exclusions or other arrangements as the directors may consider necessary or expedient in relation to fractional entitlements or on account either of legal problems under the laws of any territory or the requirements of any recognised regulatory body or any other stock exchange).

By order of the Board

Mary G Tavener
Company Secretary
18 April 2008

Registered office:
Road Three
Winsford Industrial Estate
Winsford
Cheshire
CW7 3PD

Notes

1. A member entitled to attend and vote at the meeting convened by the notice set out above may appoint a proxy to attend, speak and to vote in his place. A holder of more than one ordinary share may appoint different proxies in relation to each or any of those ordinary shares.

2. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, notice must be given to the company's Registrars not later than 48 hours before the time appointed for the holding of the meeting.

3. A proxy does not need to be a member of the company but must attend the meeting to represent you. Details of how to appoint the chairman of the meeting or another person as your proxy using the proxy form are set out at note 1 of the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

4 A form of proxy is enclosed for use by members. To be effective, it must be completed and arrive not later than 48 hours before the time fixed for the meeting at Capita Registrars, Proxies Dept, PO Box 25, Beckenham, Kent, BR3 4BR. You may also deliver by hand to The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU during usual business hours.

5. The register of directors' interests in the shares of the company will be available for inspection at the registered office of the company during usual business hours on any weekday (public holidays excepted) until the date of the meeting and also on that date and at the place of the meeting from 9.00 am until the conclusion of the meeting.

6 The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the Register of Members of the Company as at 6.00 pm on 1 June 2008 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their names at that time. Changes in the entries in the relevant register of Securities after 6.00 pm on 1 June 2008 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

shareholder notes

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